BREATHE CALIFORNIA
OF THE BAY AREA

FINANCIAL REPORT

June 30, 2015

TIMPSON GARCIA, LLP
CPAs and Consultants

Oakland, California

TIMPSON GARCIA, LLP
CPAs AND CONSULTANTS

FOUNDERS
Lawrence S. Timpson, CPA (1891–1974)
LeVerne W. Garcia, CPA (1904–1983)

PARTNERS
Dennis S. Kaneshiro, CPA
Elaine Lee Kawasaki, CPA
William E. Moy, CPA

FIRM ADMINISTRATOR
Liz Davis

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Breathe California of the Bay Area
San Jose, California

We have audited the accompanying financial statements of **Breathe California of the Bay Area** (a nonprofit organization), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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.

70 Washington Street, Suite 300 • Oakland, CA 94607-3705 • 510.832.2325 • Fax 510.465.2979 • www.timpsongarcia.com

Opinion

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

Report on Summarized Comparative Information

The financial statements of **Breathe California of the Bay Area** as of June 30, 2014, were audited by other auditors whose report dated November 18, 2014, expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Timpson Garcia, LLP

Oakland, California
November 23, 2015

BREATHE CALIFORNIA OF THE BAY AREA

STATEMENT OF FINANCIAL POSITION

June 30, 2015
with Comparative Amounts for 2014

	2015	2014
A S S E T S		
Assets		
Cash and cash equivalents	$ 40,183	$ 3,310
Accounts receivable	51,970	45,559
Inventory	58,960	42,571
Prepaid expenses	63,217	103,735
Investments	283,068	561,712
Property and equipment, net	667,707	681,237
Deposits	1,810	1,810
Total assets	$1,166,915	$1,439,934
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	$ 9,640	$ 17,984
Accrued expenses	24,064	39,904
Deferred revenue	-	7,000
Accrued pension costs	466,397	318,100
Total liabilities	$ 500,101	$ 382,988
Net assets		
Unrestricted	$ 666,814	$1,036,622
Temporarily restricted	-	20,324
Total net assets	$ 666,814	$1,056,946
Total liabilities and net assets	$1,166,915	$1,439,934

See Notes to Financial Statements.

BREATHE CALIFORNIA OF THE BAY AREA
STATEMENT OF ACTIVITIES
Year Ended June 30, 2015
with Comparative Totals for 2014

	Unrestricted	Temporarily Restricted	Total 2015	Total 2014
SUPPORT, REVENUES AND GAINS				
Contributions and revenue	$ 190,083		$ 190,083	$ 334,451
Government contracts	189,707		189,707	225,294
In-kind contributions	210,075		210,075	263,772
Program service fees	21,020		21,020	30,915
Special events revenue	68,868		68,868	73,482
Special event expenses	(38,427)		(38,427)	(49,299)
Realized gains on investments	67,256		67,256	18,382
Interest and dividends, net	3,320		3,320	5,361
Other income	1,582		1,582	693
Net assets released from restrictions	20,324	$ (20,324)	-	-
Total support, revenues and gains	$ 733,808	$ (20,324)	$ 713,484	$ 903,051
EXPENSES				
Program services				
Environmental health	$ 295,486		$ 295,486	$ 307,078
Tobacco control	78,941		78,941	147,936
Asthma and other lung disease	251,068		251,068	315,545
Community outreach	167,529		167,529	189,609
Total program services	$ 793,024		$ 793,024	$ 960,168
Supporting services				
Fund raising	$ 51,020		$ 51,020	$ 46,421
Administrative and general	40,873		40,873	22,938
Total supporting services	$ 91,893		$ 91,893	$ 69,359
Total expenses	$ 884,917		$ 884,917	$ 1,029,527
Change in net assets from operations	$ (151,109)	$ (20,324)	$ (171,433)	$ (126,476)
Non-operating activities				
Unrealized gains (losses) on investments	(49,377)		(49,377)	62,854
Pension related changes other than net periodic benefit cost	(169,322)		(169,322)	48,767
Change in net assets	$ (369,808)	$ (20,324)	$ (390,132)	$ (14,855)
Net assets, beginning	1,036,622	20,324	1,056,946	1,071,801
Net assets, ending	$ 666,814	$ -	$ 666,814	$ 1,056,946

See Notes to Financial Statements.

BREATHE CALIFORNIA OF THE BAY AREA

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2015
with Comparative Totals for 2014

	Program Services					Supporting Services			Total	
	Environmental Health	Tobacco Control	Asthma and Other Lung Disease	Community Outreach	Total	Fund Raising	Administrative and General	Total	**2015**	**2014**
FUNCTIONAL EXPENSES										
Salaries	$ 155,947	$ 43,734	$ 129,605	$ 103,680	$ 432,966	$ 26,657	$ 22,875	$ 49,532	$ 482,498	$ 566,444
Employee benefits	19,263	6,828	18,300	13,859	58,250	4,955	4,733	9,688	67,938	101,467
Payroll taxes	9,295	3,295	8,830	6,687	28,107	2,393	2,061	4,454	32,561	32,597
Professional fees	49,040	4,670	9,649	7,307	70,666	1,664	1,433	3,097	73,763	68,828
Building occupancy	3,960	1,404	3,762	2,850	11,976	1,021	879	1,900	13,876	9,963
Insurance	4,055	1,437	3,853	2,918	12,263	1,044	899	1,943	14,206	16,065
Telephone	2,400	604	1,737	1,074	5,815	82	70	152	5,967	5,166
Office supplies and expenses	1,913	663	6,183	1,345	10,104	426	380	806	10,910	5,324
Program supplies	36,023	12,784	30,908	21,755	101,470	7,546	6,339	13,885	115,355	153,596
Printing and publishing	360	101	271	205	937	1,755	12	1,767	2,704	6,005
Postage and shipping	1,335	465	1,246	944	3,990	1,523	149	1,672	5,662	5,861
Dues and subscriptions	227	80	215	163	685	792	91	883	1,568	1,840
Media expenses	2,700	780	2,090	1,583	7,153	4	3	7	7,160	8,635
Awards and grants	-	-	30,000	-	30,000	-	-	-	30,000	25,270
Meeting and travel	5,105	727	751	380	6,963	164	92	256	7,219	8,428
Depreciation and amortization	3,863	1,369	3,668	2,779	11,679	994	857	1,851	13,530	14,038
Total functional expenses	$ 295,486	$ 78,941	$ 251,068	$ 167,529	$ 793,024	$ 51,020	$ 40,873	$ 91,893	$ 884,917	$ 1,029,527
Percent of total functional expenses	33.39 %	8.92 %	28.37 %	18.93 %	89.61 %	5.77 %	4.62 %	10.39 %	100.00 %	100.00 %

See Notes to Financial Statements.

BREATHE CALIFORNIA OF THE BAY AREA

STATEMENT OF CASH FLOWS

Year Ended June 30, 2015
with Comparative Amounts for 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (390,132)	$ (14,855)
Adjustments to reconcile change in net assets to net cash (used in) operating activities:		
Depreciation	13,530	14,038
Realized and unrealized gains on investments	(17,879)	(81,236)
(Increase) decrease in operating assets:		
Accounts receivable	(6,411)	19,761
Inventory	(16,389)	(1,536)
Prepaid expenses and other assets	40,518	787
Increase (decrease) in operating liabilities:		
Accounts payable	(8,344)	(8,405)
Accrued expenses	(15,840)	2,850
Deferred revenue	(7,000)	7,000
Accrued pension cost	148,297	(38,584)
Net cash (used in) operating activities	$ (259,650)	$ (100,180)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	$ (436,179)	$ (265,647)
Redemption of investments	732,702	329,249
Net cash provided by investing activities	$ 296,523	$ 63,602
Net change in cash and cash equivalents	$ 36,873	$ (36,578)
CASH AND CASH EQUIVALENTS		
Beginning	3,310	39,888
Ending	$ 40,183	$ 3,310

See Notes to Financial Statements.

Note 1. Summary of Significant Accounting Policies

Nature of Activities:

Breathe California of the Bay Area (the Organization) was founded in 1911 and recognized by the Internal Revenue Service as an exempt, not-for-profit, voluntary health organization 501(c)(3) in February 1948. The organization was incorporated in California on November 30, 1959. The purpose of the Organization is to pursue, promote and assist in the prevention, care and study of diseases of the lung. The Organization conducts programs to inform the public of environmental health issues, smoking and health hazards, asthma, lung disease and community heatlh. The Organization relies on public donations and grants for its funding.

The previous name of the Organization was the American Lung Association of Santa Clara - San Benito Counties. Effective February 13, 2006, the Organization adopted its new name when it terminated its affiliate agreements and separated from the American Lung Association (ALA) and the American Lung Association of California (ALAC).

Basis of Presentation:

The Organization follows standards of accounting and financial reporting prescribed for voluntary health and welfare organizations which include reporting on the accrual basis of accounting.

Financial statement presentation:

In accordance with generally accepted accounting principles, the Organization reports its financial position and operating activities in three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Organization also presents a statement of cash flows.

Unrestricted net assets include those assets over which the Board of Directors has discretionary control in carrying out the operations of the Organization. The Organization has elected to report as an increase in unrestricted net assets any restricted revenue received in the current period for which the restrictions have been met in the current period.

Temporarily restricted net assets include those assets which are subject to a donor imposed restriction and for which the applicable restriction was not met as of the end of the current reporting period.

Permanently restricted net assets include those assets which are subject to a non-expiring donor imposed restriction. The Organization has no permanently restricted net assets.

Note 1. Summary of Significant Accounting Policies (Continued)

Financial statement presentation: (continued)

The costs of providing the various programs and other activities of the Organization 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.

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 generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2014, from which the summarized information was derived. Certain items from the prior year have been reclassified to conform with the current year financial statement presentation.

Use of estimates:

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

Revenue recognition:

The Organization recognizes contributions and pledges as revenue in the period the donor makes a promise to give that is, in substance, unconditional. Contributions restricted by the donor are reported as increase in unrestricted net assets if the restictions expire in the fiscal year in which the revenue is recognized. All other donor restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction as to time or use expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Bequests are recognized as income at the time an unassailable right to the gift has been established and the proceeds are measurable in amount. Amounts received for services or events not yet provided are classified as deferred support and revenue, and are recognized in the period in which the services are provided or the event takes place.

Note 1. Summary of Significant Accounting Policies (Continued)

Government grant revenue:

Government grant revenue represents third-party reimbursement for program services. Grant revenues are recognized as revenue in the period in which the reimbursable costs are incurred.

In-kind support:

Donated services are recognized as contributions at their fair value (Level 2) if the services (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The amounts reflected in the accompanying financial statements as in-kind services are offset by a like amount of expenses. Donated services for the year ended June 30, 2015 were valued at approximately $136,000 and related to volunteer professional services. Donated supplies for the year ended June 30, 2015 were reported at fair value (Level 2) at the date the contributions were recevied and were valued at approximately $74,000.

The Organization also receives a significant amount of donated time from attorneys that help to further its mission. These services do not meet the criteria for recognition as donated services because the Organization would not purchase the services if not provided by donation.

Concentration of credit risk:

Financial instruments which potentially subject the Organization to concentration of credit risk consist primarily of cash and cash equivalents, accounts receivable and investments.

The Organization primarily maintains its cash and cash equivalents and investments with a credit union, a major financial institution, and major domestic brokerage firm, which were insured by the Securities Investor Protection Corporation (SIPC) for up to $500,000, including $250,000 for cash deposits. At various times throughout the year, the Organization's investments balance in its accounts has exceeded these insured limits.

There was no major grantor for the year ended June 30, 2015. Major grantors are defined as those who represent greater than ten percent of the Organization's total annual revenue and support. Three grantors composed 53% of accounts/grants receviable as of June 30, 2015.

Cash and cash equivalents:

For purposes of the statements fo cash flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. The carrying amounts approximate fair value.

Note 1. Summary of Significant Accounting Policies (Continued)

Accounts receivable:

Accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts. The Organization provides for losses on accounts receivable using the allowance method. The allowance is based on management's experience with uncollectible accounts. Receviables are considered impaired if full payments are not received in accordance with the contractual terms. It is the Organization's policy to charge off uncollectible accounts receivable when managment determines the receivable will not be collected. Management does not consider an allowance for doubtful accounts to be necessary as all receivables are considered collectible.

Inventory:

Inventory is valued at the lower of cost or market and consists primarily of respiratory care supplies.

Investments:

The Organization's marketable securities consist of fixed income and equity securities and are presented at fair value based on prices quoted on established security exchanges. Unrealized gains and losses are included in the change in net assets in non-operating activities on the accompanying statement of activities.

Fair value measurements:

Generally accepted accounting principles require the Organization to classify its financial assets and liabilities based on a valuation method using three levels. Level 1 value is based on quoted prices in active markets for identical securities. Level 2 values are based on significant observable market inputs, such as quoted prices for similar securities and quoted prices in inactive markets. Level 3 values are based on significant unobservable inputs that reflect the Organization's determination of assumptions that market participants might reasonably use in valuing the securities. The valuation levels are not necessarily an indication of the risk or liquidity associated with the underlying investments.

Property, equipment and depreciation:

The Organization capitalizes property and equipment acquistion in excess of $500. Purchased property and equipment are recorded at cost. Donated property and equipment are recorded at fair value on the date received. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets, ranging from 5 to 40 years. Leasehold improvments are amortized over the lesser of the remaining lease term or the assets' estimated useful lives. The Organization reviews its long-lived assets for impairment whenever events or chagnes in circumstances indicate the carrying value of assets may not be recoverable.

Note 1. Summary of Significant Accounting Policies (Continued)

Income taxes:

The Organization is a not-for-profit corporation exempt from income taxes under Internal Revenue Code Section 501(c)(3). The Organization is exempt from California income taxes under Section 23701(d) of the California Revenue and Taxation Code. As a result no provision for federal or state incom taxes is provided in the accompanying financial statements.

The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. All of the Organization's federal and California exempt organization returns are current. The Organization's federal exempt returns are subject to examination by the IRS generally for three years after they were filed and California exempt returns are subject to examination by the California Franchise Tax Board generally for four years after they were filed.

Advertising:

The Organization expenses advertising costs as incurred. For the year ended June 30, 2015, advertising expense was $7,160.

Note 2. Investments

The fair market values of investments measured on a recurring basis at June 30, 2015 are as follows:

	Level 1	Level 2	Total
Equity securities	$ 106,738	$ -	$ 106,738
Mutual funds-fixed income	176,330	-	176,330
Total investments	$ 283,068	$ -	$ 283,068

Investment income for the year ended June 30, 2015 consisted of the following:

Operating activities:	
Interest and dividend income	$ 10,826
Investment advisory fees	(7,506)
Interest and dividends, net	$ 3,320
Realized gains	67,256
Investment income from operations	$ 70,576
Non-operating activities:	
Unrealized (losses)	(49,377)
Net investment income	$ 21,199

Note 3. Pension Plan

The Organization has a noncontributory defined benefit pension plan covering certain current and former employees. The Organization's funding policy is to make the minimum annual contribution required by applicable regulations. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future. The Organization's Board of Directors closed the plan to new participants.

The Organization is not expected to contribute for the year ending June 30, 2016. Contributions for the year ended June 30, 2015 were $46,400.

The following tables set forth further information regarding the plan as of and for the years ended June 30, 2015 and 2014:

	2015	2014
Obligations and funded status		
Projected benefit obligation	$ (1,190,726)	$ (1,761,171)
Plan assets at fair value	724,329	1,443,071
Funded status	$ (466,397)	$ (318,100)
Accumulated benefit obligation	$ 1,158,240	$ 1,728,996
Plan expenses paid	$ 14,456	$ 13,407
Components of net periodic benefit cost:		
Service cost	$ 31,198	$ 34,664
Interest cost	69,556	74,308
Expected return on plan assets	(99,456)	(92,927)
Recognized net loss	24,077	34,338
Net periodic benefit cost	$ 25,375	$ 50,383
Cumulative other changes in plan assets and obligations recognized as changes in unrestricted net assets:		
Unrecognized net loss, beginning of year	$ (320,579)	$ (369,346)
Current year unrecognized return	(169,322)	48,767
Unrecognized net loss, end of year	$ (489,901)	$ (320,579)

The estimated net loss that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year is $71,176.

Note 3. Pension Plan (Continued)

The following assumptions were used to determine the plan status as of and for the years ended June 30, 2015 and 2014:

	2015	**2014**
Weighted average assumptions used to determine benefit obligations:		
Discount rate	4.0%	4.6%
Rate of compensation increase	3.0%	3.0%
Weighted average assumptions used to determine net periodic benefit costs:		
Discount rate	4.1%	4.0%
Rate of compensation increase	3.0%	3.0%
Expected long-term return on plan assets	7.0%	7.0%

The Organization's expected rate of return on plan assets is determined by the plan assets historical long-term investment performance, current asset allocation, and estimates of future long-term returns by asset class.

Benefits paid during the years ended June 30, 2015 and 2014 were $805,563 and $35,529, respectively. Benefits expected to be paid in each of the next five fiscal years and the following five years in aggregate are as follows:

Years ending June 30:	
2016	$ 99,938
2017	113,637
2018	118,485
2019	117,198
2020	115,535
5 years thereafter	546,780

For the years ended June 30, 2015 and 2014, amounts recognized for periodic pension expense reported as a change to unrestricted net assets in the accompanying statement of activities are as follows:

	2015	**2014**
Net gain (loss)	$ (193,399)	$ 14,429
Amortization of net gain	24,077	34,338
	$ (169,322)	$ 48,767

Note 3. Pension Plan (Continued)

The fair value of the Organization's pension plan assets at June 30, 2015 are as follows:

	Level 1	Level 2	Level 3	Total
Collective trust funds	$ -	$ 724,329	$ -	$ 724,329

The fair value of the Organization's pension plan assets at June 30, 2014 are as follows:

	Level 1	Level 2	Level 3	Total
Collective trust funds	$ -	$1,443,071	$ -	$1,443,071

In order to meet its needs, the Organization's investment strategy 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 in order to achieve a balanced return of current income and appropriate growth of principal.

The secondary objective in the investment management of assets is the preservation of purchasing power after spending in order 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 Organization's investment managers 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 under the Organization's investment policy.

Note 4. Shareable payments

Effective February 13, 2006, the Organization terminated its affiliate agreements and separated from ALA and ALAC. Although the Organization is legally separated from both ALA and ALAC, the Organization is restricted in various matters subject to consent judgements and certain revenues for a certain period of time continued to be shared with ALA and ALAC. No shared revenue was paid for the year ending June 30, 2015. Management is not aware of any violation of the consent judgement as of June 30, 2015.

Note 5. Property and Equipment

At June 30, 2015, property and equipment consisted of the following:

Land	$	366,000
Building		406,668
Office equipment		113,102
Leasehold improvements		129,534
Vehicles		16,211
	$	1,031,515
Less accumulated depreciation		363,808
	$	667,707

Note 6. Allocation of Joint Costs

Joint costs are costs that relate to fundraising activities as well as program services. The following joint costs were incurred for informational material and activities that included fundraising appeals for the year ended June 30, 2015:

Program services:		
Environmental health	$	641
Tobacco control		477
Asthma and other lung disease		641
Community outreach		641
	$	2,400
Support services:		
Fund raising	$	1,532
Management and general		402
	$	1,934
	$	4,334

Note 7. Subsequent events

Management has evaluated subsequent events through November 23, 2015, the date the financial statements were available to be issued.