



Certified Public Accountants, LLP

**BREATHE CALIFORNIA
OF LOS ANGELES COUNTY**

COMBINED FINANCIAL STATEMENTS

JUNE 30, 2016

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CONTENTS

Independent Auditors' Report	1-2
Combined Statement of Financial Position	3
Combined Statement of Activities	4
Combined Statement of Functional Expenses	5
Combined Statement of Cash Flows	6
Notes to the Combined Financial Statements	7-21

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Breathe California of Los Angeles County

Report on the Financial Statements

We have audited the accompanying financial statements of Breathe California of Los Angeles County, which comprise the Combined Statement of Financial Position as of June 30, 2016, and the related Combined Statements of Activities, Functional Expenses, and Cash Flows for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of Breathe California of Los Angeles County 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.

INDEPENDENT AUDITORS' REPORT

continued

Other Matter

Summarized Comparative Information

The financial statements of Breathe California of Los Angeles County as of June 30, 2015, were audited by other auditors whose report dated December 16, 2015, expressed an unmodified opinion on those financial statements.

Pasadena, California
March 31, 2017

BREATHE CALIFORNIA OF LOS ANGELES COUNTY

COMBINED STATEMENT OF FINANCIAL POSITION

June 30, 2016

With comparative totals at June 30, 2015

	<u>2016</u>	<u>2015</u>
ASSETS:		
Cash and Cash Equivalents	\$ 972,169	\$ 599,418
Investments (Note 3)	2,400,824	2,929,678
Contributions and Other Receivables	54,197	67,632
Bequests Receivable	2,678,896	2,207,594
Assets Held in Charitable Remainder Trusts (Note 4)	498,132	520,445
Beneficial Interest in Charitable Remainder Trusts (Note 5)	1,612,806	1,136,366
Prepaid Pension Assets and Other Prepaid Expenses	-	144,057
Property and Equipment (Note 6)	2,656,159	2,698,408
Other Assets	7,000	7,000
	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 10,880,183</u>	<u>10,310,598</u>
 LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts Payable and Accrued Liabilities (Note 7)	\$ 457,570	\$ 731,199
Payable to American Lung Association - State and National (Note 9)	1,699,909	1,190,513
Liabilities under Charitable Remainder Trusts (Note 4)	150,999	164,495
Annuities Payable (Note 8)	66,817	69,286
	<u> </u>	<u> </u>
TOTAL LIABILITIES	<u>2,375,295</u>	<u>2,155,493</u>
 NET ASSETS:		
Unrestricted	3,568,114	2,845,815
Temporarily Restricted (Note 12)	3,821,653	4,194,169
Permanently Restricted (Note 14)	1,115,121	1,115,121
	<u> </u>	<u> </u>
TOTAL NET ASSETS	<u>8,504,888</u>	<u>8,155,105</u>
	<u> </u>	<u> </u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 10,880,183</u>	<u>\$ 10,310,598</u>

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

BREATHE CALIFORNIA OF LOS ANGELES COUNTY

COMBINED STATEMENT OF ACTIVITIES
For the year ended June 30, 2016
With comparative totals for the year ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016	2015
PUBLIC SUPPORT:					
Bequests	\$ 1,859,135	\$ 673,869	\$ -	\$ 2,533,004	\$ 2,224,192
Contributions	56,319	75,000		131,319	24,955
Grants	314,838			314,838	153,500
Memorials	1,237			1,237	1,622
Contributions In-Kind	357,578			357,578	243,692
Special Events (Net of Direct Donor Benefit of \$107,959)	21,479			21,479	(7,781)
TOTAL PUBLIC SUPPORT	2,610,586	748,869	-	3,359,455	2,640,180
OTHER REVENUE:					
Rental Income (Note 10)	531,613			531,613	537,282
Investment Income	39,297	86,421		125,718	69,090
Miscellaneous	2,326			2,326	10,089
Change in Value of Beneficial Interest in Charitable Remainder Trusts		16,027		16,027	4,712
Change in Value of Annuities Payable (Note 8)	(5,577)			(5,577)	(8,150)
TOTAL OTHER REVENUE	567,659	102,448	-	670,107	613,023
Net Assets Released from Purpose Restrictions	680,521	(680,521)		-	-
TOTAL PUBLIC SUPPORT AND OTHER REVENUE	3,858,766	170,796	-	4,029,562	3,253,203
EXPENSES:					
Program Services	2,894,238			2,894,238	1,985,137
Supporting Services:					
Development	407,701			407,701	354,131
General and Administrative	377,840			377,840	133,005
TOTAL EXPENSES	3,679,779	-	-	3,679,779	2,472,273
CHANGE IN NET ASSETS BEFORE PENSION RELATED CHANGES	178,987	170,796		349,783	780,930
Pension-Related Changes Other than Net Periodic Pension Cost				-	(115,639)
CHANGE IN NET ASSETS	178,987	170,796	-	349,783	665,291
NET ASSETS, BEGINNING OF YEAR, AS REPORTED	2,845,815	4,194,169	1,115,121	8,155,105	7,489,814
Prior Period Adjustment (Note 15)	543,312	(543,312)	-	-	-
NET ASSETS, BEGINNING OF YEAR, AS RESTATED	3,389,127	3,650,857	1,115,121	8,155,105	7,489,814
NET ASSETS, END OF YEAR	\$ 3,568,114	\$ 3,821,653	\$ 1,115,121	\$ 8,504,888	\$ 8,155,105

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

BREATHE CALIFORNIA OF LOS ANGELES COUNTY

COMBINED STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2016

With comparative totals for the year ended June 30, 2015

	Program Services	Development	General and Administrative	Total Expenses	
				2016	2015
SALARIES AND RELATED COSTS:					
Professional Salaries	\$ 473,411	\$ 124,578	\$ 47,160	\$ 645,149	\$ 610,930
Employee Benefits	245,029	64,480	24,409	333,918	35,749
Payroll Taxes	39,228	10,323	3,908	53,459	47,181
TOTAL SALARIES AND RELATED COSTS	757,668	199,381	75,477	1,032,526	693,860
OTHER EXPENSES:					
State and National Assessment	1,231,082	40,580	81,160	1,352,822	674,915
Professional Fees	493,857	76,086	184,303	754,246	532,367
Building Expenses	118,198	31,104	11,775	161,077	203,090
Insurance	45,393	11,778	5,215	62,386	59,972
Property Taxes	43,078	11,336	4,291	58,705	65,530
Depreciation	31,003	8,158	3,088	42,249	32,556
Office and Operating Supplies	29,744	7,369	3,015	40,128	24,659
Awards and Grants	37,499			37,499	103,000
Printing, Publications, and Audiovisual	30,280	4,774	1,954	37,008	16,867
Local Meeting Costs	24,064	5,781	2,013	31,858	6,221
Telephone	15,095	4,157	1,500	20,752	17,623
Miscellaneous	10,752	2,729	1,394	14,875	10,358
Project Supplies	10,424	699	560	11,683	3,102
Postage and Shipping	5,005	1,322	458	6,785	6,745
Conference and Symposiums Costs	4,697	389	849	5,935	12,778
Media Expense	4,142	1,479	296	5,917	3,463
Dues and Subscriptions	2,257	579	492	3,328	5,167
TOTAL 2016 FUNCTIONAL EXPENSES	\$ 2,894,238	\$ 407,701	\$ 377,840	\$ 3,679,779	
TOTAL 2015 FUNCTIONAL EXPENSES	\$ 1,985,137	\$ 354,131	\$ 133,005		\$ 2,472,273

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

BREATHE CALIFORNIA OF LOS ANGELES COUNTY

COMBINED STATEMENT OF CASH FLOWS

For the year ended June 30, 2016

With comparative totals for the year ended June 30, 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 349,783	\$ 665,291
Adjustments to Reconcile Change in Net Assets to Net Cash		
Cash Provided (Used) by Operating Activities:		
Depreciation	42,249	32,556
Realized and Unrealized (Gains) Losses on Investments	(52,388)	1,012
Interest and Dividends Reinvested	(56,453)	(70,000)
Change in Value of Beneficial Interest in Charitable Remainder Trusts	(16,027)	(4,712)
Change in Value of Annuities Payable	5,577	8,150
(Increase) Decrease in Operating Assets:		
Contributions and Other Receivables	13,435	55,696
Bequests Receivable	(471,302)	(2,097,594)
Prepaid Pension Assets and Other Prepaid Expenses	144,057	76,771
Increase (Decrease) in Operating Liabilities:		
Accounts Payable and Accrued Expenses	(273,629)	124,248
Payable to American Lung Association - State and National	509,396	533,940
	<u>194,698</u>	<u>(674,642)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Investments	-	(88,980)
Redemption of Investments	646,512	375,000
Purchase of Property and Equipment	-	(19,235)
	<u>646,512</u>	<u>266,785</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from Charitable Remainder Trust	(460,413)	400,511
Payments to Annuitants	(8,046)	(13,126)
	<u>(468,459)</u>	<u>387,385</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	372,751	(20,472)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	599,418	619,890
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 972,169	\$ 599,418

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

BREATHE CALIFORNIA OF LOS ANGELES

NOTES TO THE COMBINED FINANCIAL STATEMENTS

1. Organization

Breathe California of Los Angeles County (“BREATHE LA”) is a Los Angeles-based public benefit non-profit organization committed to improving lung health and air quality for all Los Angeles area residents. To further promote their initiatives, BREATHE LA partners with community organizations, universities and business. Recognized for their comprehensive lung health programs and groundbreaking research, BREATHE LA serves as a clean air and healthy living advocate. BREATHE LA emphasizes that we all have a stake in the air we breathe.

BREATHE LA’s mission is to promote clean air and healthy lungs through research, education, advocacy, and technology. Through these four strategic approaches, BREATHE LA seeks to mitigate environmental and tobacco sources of pollution. In addition BREATHE LA seeks to improve the quality of life of those suffering chronic lung diseases, primarily asthma and Chronic Obstructive Pulmonary Disease (“COPD”).

BREATHE LA is uniquely positioned in the community because they provide services at the crossroads between environment and health. With a specific focus on lung health, their work intersects at environmental health through air quality issues. While the most prevalent lung diseases affecting vulnerable populations in the Los Angeles area may change throughout the years, BREATHE LA’s mission remains relevant and timely to address the most pressing issues along with their root environmental causes.

BREATE LA focuses on:

- Local impact: BREATHE LA directly benefits people in LA County.
- Lung Health: BREATHE LA’s strategic focus encompasses Asthma and COPD and environmental health.

Landscape for **ASTHMA**:

- Costs for kids with asthma that had help were \$6,452; costs for kids without help were \$14,213. According to the Los Angeles County Health Survey of 2011, the number of children from ages of 0-17 with asthma attacks in Los Angeles County was 214,000.
- Children with poorly controlled asthma are most likely to visit the emergency room, be hospitalized and/or miss school. Last year roughly 129,000 (52%) children with asthma missed some school or day care due to symptoms, causing approximately 1.2 million absences that resulted in missed learning opportunities and reduced school funding.
- Of the more than 600,000 Californians who experience frequent – daily or weekly – symptoms that can signal uncontrolled asthma, a significant proportion (39.1 percent) earn less than 200 percent of the federal government’s poverty standard (FPL).

BREATHE CALIFORNIA OF LOS ANGELES

NOTES TO THE COMBINED FINANCIAL STATEMENTS

1. **Organization**, continued

Landscape of **COPD**:

- According to a 2013 research study, California had 1.27 million people with COPD which was the largest of any State. Los Angeles showed 328,847 people with COPD which was the highest in California with the next closest city at 106,254 people with COPD (San Diego). This does not include the hundreds of thousands of people who have COPD and have not been properly diagnosed.

In March 2013, The Los Angeles County Department of Public Health reported the mortality rate per 100,000 for COPD in Los Angeles County is 30.3%, 10 times greater than HIV.

Total deaths from COPD are projected to increase by more than 30% in the next 10 years unless urgent action is taken to reduce the underlying risk factors, especially tobacco use.

The number of women dying from COPD now surpasses the number of men.

- **Creating partnerships:** BREATHE LA is a welcoming, cooperative partner to donors and community organizations.
- **Demonstrating longevity:** Since 1903, BREATHE LA has made breathing easier in Los Angeles.
- **Communicating in multiple languages:** BREATHE LA provides services and materials in English and Spanish.
- **Promoting leadership:** BREATHE LA empowers individuals with the tools to become environmental and health leaders in their own communities.
- **Producing measurable outcomes:** BREATHE LA instills quantitative evaluations in its programs and services to ensure tangible, short-and long-terms results.
- **Promoting lung health research:** BREATHE LA has sponsored and participated in several research projects including a COPD and asthma research project with the American Thoracic Society, a UCLA study on CicLAvia, and developing an after school program from tobacco prevention with the UC Regents TRDRP.

BREATHE CALIFORNIA OF LOS ANGELES

NOTES TO THE COMBINED FINANCIAL STATEMENTS

1. **Organization**, continued

Primary Programs

BREATHE LA's community programs include:

024u[®], an environmental education program for 8 to 14 year-olds teaches children about the environment and its impact on lung health, encouraging opportunities to demonstrate responsible actions. Current community partners include WRAP LBUSD Afterschool Program, the Boys & Girls of Long Beach, LA Conservation Corps, ASPITE and others. Since 2006, BREATHE LA served 50,000 K-8th grade students in more than 100 schools through the 024u[®] program.

Better Breathers Clubs[®] is a COPD support group program that provides education and self-management tools to people living with COPD to improve health outcomes and quality of life.

For the 2015-2016 fiscal year, BREATHE LA is engaging in an Adult Lung Health demonstration project funded in partnership through the Southern California Gas Company. The project involves partnerships with community organizations in SPA 4, 6, and 8.

Trudeau Society, a network of leading Los Angeles lung health experts, holds lectures featuring leading lung health experts speaking to the society's medical professionals about the latest approaches to COPD. The Samuel J. Sills MD Lecture and related events helped members network among peers regarding a common desire to help improve lung health.

Advocacy involves the latest advances in public health to address the asthma and COPD epidemics as well as improve lung health and air quality in our region.

The **Breath of Life Awards Gala** annually honors top civic and business leaders for their exemplary leadership to advance clean air and healthy lungs. Recent honorees include The Boeing Company, Lt. Governor Gavin Newsom, BNSF Railway, Los Angeles/Orange Counties Building and Construction Trades Council, Psomas Engineering, CH2M Hill, the Los Angeles Community College District, and LA City Mayor Eric Garcetti.

The **COPD Conference** annually joins medical professionals on the later trends impacting COPD. Local pulmonology experts present compelling new strategies and research findings.

BREATHE CALIFORNIA OF LOS ANGELES

NOTES TO THE COMBINED FINANCIAL STATEMENTS

1. **Organization**, continued

BREATHE LA HISTORY

BREATHE LA was first formed in 1903 as an independent lung health organization called the Los Angeles Society for the Study and Prevention of Tuberculosis. BREATHE LA served the city's growing population of more than 300,000. For more than 30 years, BREATHE LA was committed to increasing public awareness about the tuberculosis (TB) epidemic and other lung-related diseases-including asthma, bronchitis and emphysema-and working towards eradicating these diseases. Since its creation in 1903, BREATHE LA has undergone a number of name changes, including:

- 1927 - Incorporated as Los Angeles Tuberculosis & Health Association
- 1952 - Los Angeles County Tuberculosis and Health Association
- 1958 - Tuberculosis & Health Association of Los Angeles County
- 1968 - Tuberculosis & Respiratory Disease Association of Los Angeles County
- 1974 - Lung Association of Los Angeles County
- 1979 - American Lung Association of Los Angeles County
- 2006 - BREATHE California of Los Angeles County

BREATHE LA rebranded itself in 2006, continuing its mission dedicated to clean air and healthy lungs by partnering with youth, advocating in changing public policy, supporting lung health research, and educating the public. BREATHE LA emphasizes its focus as an independent lung health organization to address Los Angeles County's specific air quality and lung health needs. As pediatric asthma rates increased nationwide, the organization also placed greater emphasis on asthma education programs, while continuing to pursue clean air initiatives. BREATHE LA is a member of the BREATHE California Alliance, including three other BREATHE California organizations that focus on Central Coast, Sacramento-Emigrant Trails, San Francisco, San Mateo, and Santa Clara-San Benito Counties. The BREATHE California Alliance focuses on localized programs and comes together to implement programs and research that benefits all Californians. They work together to advance lung health and clean air policies and practices.

BREATHE CALIFORNIA STATEWIDE PARTNERS

BREATHE California is comprised of four incorporated lung health organizations that collaborate for advocacy and special initiatives to achieve greater statewide impact to advance clean air and healthy lungs. The organizations have clearly delineated geographical areas of focus to ensure complete coverage within California, with offices based in Los Angeles, San Francisco Sacramento, and San Jose. All BREATHE California corporations are members of the BREATHE America Alliance.

BREATHE CALIFORNIA OF LOS ANGELES

NOTES TO THE COMBINED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies

A summary of the significant accounting policies applied in the preparation of the accompanying combined financial statements is as follows:

Principles of Combined Financial Statements

The accompanying combined financial statements comprise the activities of BREATHE LA and two affiliated non-profit organizations, the Emphysema Foundation of Los Angeles and the Emphysema Foundation of America (the Foundations), after elimination of intercompany transactions and balances.

Basis of Presentation

The accompanying combined financial statements have been prepared on the accrual basis of accounting.

Accounting

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of BREATHE LA are maintained in accordance with the principles of net asset accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by net asset class as follows:

Unrestricted. These generally result from revenues generated by receiving unrestricted contributions, providing services, and receiving interest from investments less expenses incurred in providing program-related services, raising contributions, and performing administrative functions.

Temporarily Restricted. BREATHE LA reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the combined Statement of Activities as net assets released from program or capital restrictions. As of June 30, 2016 BREATHE LA had \$3,821,653 in temporarily restricted net assets.

Permanently Restricted. These net assets are restricted by donors who stipulate that resources are to be maintained permanently, but permit BREATHE LA to expend all of the income (or other economic benefits) derived from the donated assets. As of June 30, 2016, BREATHE LA had \$1,115,121 in permanently restricted net assets, representing a net bequest receivable.

BREATHE CALIFORNIA OF LOS ANGELES

NOTES TO THE COMBINED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, cash in checking and savings accounts and certificates of deposit with original maturities of three months or less.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at fair value. Gains and losses on investments are reported in the combined Statement of Activities as increases or decreases in unrestricted net assets unless their use is temporarily restricted by explicit donor stipulations

BREATHE LA maintains a separate cash and investments account for its Annuity Reserve Fund. The balance in this fund totaled \$120,784 as of June 30, 2016.

Contributions and Other Receivables

Unconditional contributions, including grants recorded at fair value are recognized as revenues in the period pledged. BREATHE LA reports unconditional contributions as restricted support if they are received with donor stipulations that limit the use of the donated assets. All contributions and other receivables are due within one year.

Conditional promises to give that are contingent upon future events or future matching are not recorded until the conditions have been satisfied. If funds are received from such gifts, they are recorded as refundable advances until the condition is satisfied. When the condition has been satisfied, the gift is recognized as either unrestricted or temporarily restricted revenue depending on the intent of the donor. At June 30, 2016, there were no conditional promises to give.

Bequests Receivable

BREATHE LA records all bequest when declared valid by the probate court and the value of amount is determinable.

Property and Equipment

Property and equipment are recorded at cost if purchased or at fair value at the date of donation if donated. Depreciation expense is computed using the straight-line method over the estimated useful lives of the respective assets. The cost of maintenance and repairs is charged to expense as incurred. Property and equipment are capitalized if the cost of an asset is greater than or equal to \$5,000 and the useful life is greater than one year.

BREATHE CALIFORNIA OF LOS ANGELES

NOTES TO THE COMBINED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Deferred Rent Incentives

Rent incentives for tenant improvements are deferred and recognized as income on the straight – line basis over the term of the lease.

Concentration of Credit Risks

BREATHE LA places its temporary cash investments with high-credit, quality financial institutions. At times, such investments may be in excess of the Federal Deposit Insurance Corporation (“FDIC”) insurance limit. BREATHE LA has not incurred losses related to these investments.

Investment securities, in general, are exposed to various risks, such as interest rate credit, and overall market volatility. Because of the level of risk associated with certain long-term investments, it is reasonably possible that changes in the values of these investments will occur in the near term and that such changes could materially affect the amounts reported in the combined Statement of Financial Position. The Board of Directors routinely reviews market values of such investments.

Fair Value Measurements

Generally accepted accounting principles provide guidance on how fair value should be determined when financial statement elements are required to be measured at fair value. Valuation techniques are ranked in three levels depending on the degree of objectivity of the inputs used with each level:

Level 1 inputs - quoted prices in active markets for identical assets

Level 2 inputs - quoted prices in active or inactive markets for the same or similar assets

Level 3 inputs - estimates using the best information available when there is little or no market

BREATHE LA is required to measure certain investments, assets held in charitable remainder trusts, beneficial interest in charitable remainder trusts, liabilities under charitable remainder trusts, annuities payable, and in-kind contributions at fair value. The specific techniques used to measure fair value for the combined financial statement elements are described in the notes below that relates to each element.

Donated Goods and Services

Contributions of donated non-cash assets are measured on a non-recurring basis and recorded at fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at fair value in the period received. For the year ended June 30, 2016, BREATHE LA received \$357,578 of donated services that satisfy the criteria for recognition.

continued

BREATHE CALIFORNIA OF LOS ANGELES

NOTES TO THE COMBINED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Income Taxes

BREATHE LA is exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d.

Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by BREATHE LA in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. BREATHE LA's returns are subject to examination by federal and state taxing authorities, generally for three and four years, respectively, after they are filed.

Functional Allocation of Expenses

Costs of providing BREATHE LA's programs and other activities have been presented in the combined Statement of Functional Expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit. BREATHE LA uses salaries allocations to allocate indirect costs.

Use of Estimates

The preparation of combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, and expenses as of the date and for the period presented. Actual results could differ from those estimates.

Comparative Totals

The combined 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 BREATHE LA's combined financial statements for the year ended June 30, 2015 from which the summarized information was derived.

BREATHE CALIFORNIA OF LOS ANGELES

NOTES TO THE COMBINED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Subsequent Events

Management has evaluated subsequent events through March 31, 2017, the date which the combined financial statements were available for issue. No events or transactions have occurred during this period that appear to require recognition or disclosure in the combined financial statements.

Reclassifications

Certain amounts from the June 30, 2015 combined financial statements have been reclassified for comparative purposes to conform to June 30, 2016 presentation.

3. Investments

Investments are stated at fair value and consist of the following at June 30, 2016:

Cash and cash equivalents	\$ 31,109
Government bonds	91,266
Corporate bonds	799,559
Mutual funds – bonds	860,038
Mutual funds – equities	598,131
Stocks	<u>20,721</u>
Total investments	<u>\$2,400,824</u>

4. Assets Held in Charitable Remainder Trusts (Organization is the Trustee)

BREATHE LA is the trustee of five charitable remainder trusts which provide for the payment of lifetime distributions to the trustors and/or other designated beneficiaries. The trusts are managed by a financial institution. Upon the demise of all lifetime beneficiaries, the trusts provide for the distributions of assets to BREATHE LA. Assets received under these agreements are recorded at the fair value when received. Liability is recorded at the present value of the estimated future payments to be distributed to the lifetime beneficiaries. The amount of the contribution is the difference between these amounts and is classified as temporarily restricted support.

BREATHE CALIFORNIA OF LOS ANGELES

NOTES TO THE COMBINED FINANCIAL STATEMENTS

5. Beneficial Interest in Charitable Remainder Trusts (Organization is not the Trustee)

BREATHE LA is the beneficiary of eight charitable remainder trusts for which a financial institution serves as trustee. BREATHE LA recognizes temporarily restricted contribution revenue and as a receivable the present value of the estimated future benefits to be received when the trust assets are distributed. Adjustments to the receivable to reflect the revaluation of the present value of the estimated future payments to the lifetime beneficiaries are recognized in the combined Statement of Activities as changes in the value of charitable remainder trusts.

Beneficial interest in the charitable remainder trusts totaled \$1,612,806 at June 30, 2016, representing the portion of the charitable remainder trusts for which BREATHE LA is the designated beneficiary.

6. Property and Equipment

Property and equipment at June 30, 2016 consist of the following:

Land and parking lot	\$ 2,532,362
Building and improvements	2,460,806
Equipment	281,234
Furniture and fixtures	137,272
Parking lot improvements	<u>47,429</u>
	5,459,103
Less: accumulated depreciation	<u>(2,802,944)</u>
	<u>\$ 2,656,159</u>

Depreciation expense for the year ended June 30, 2016 was \$42,249.

7. Account Payable and Accrued Liabilities

Accounts payable and accrued liabilities at June 30, 2016 consist of the following:

Deferred compensation	\$361,498
Accrued vacation	34,828
Accounts payable	31,158
Tenant security deposits	26,993
Other	<u>3,093</u>
	<u>\$457,570</u>

BREATHE CALIFORNIA OF LOS ANGELES

NOTES TO THE COMBINED FINANCIAL STATEMENTS

8. Annuities Payable

Annuities gifts are recorded in the period in which the contract is executed. When a gift is received, the assets are recorded at fair market value, and the present value of the future annuity payments expected to be paid is recorded as a liability. Unrestricted contributions revenue is recorded as the difference between these two amounts. In subsequent periods, adjustments are made to the annuity liability account to recognize amortization of the discount and actuarial gains and losses and are reflected in the combined Statement of Activities as change in the value of annuity gifts.

A summary of the change in annuities payable is as follows:

Beginning of the year	\$69,286
Payments to annuitants	(8,046)
Change in value	<u>5,577</u>
End of the year	<u>\$66,817</u>

9. Revenue Sharing With State and National Associations

Effective February 13, 2006, BREATHE LA separated from the American Lung Association (“ALA”) and the American Lung Association of California (“ALAC”). Previously, BREATHE LA was required to share with ALA and ALAC up to 30.2% of all its shareable revenues as defined in the Affiliate Agreement with ALA and ALAC. As an independent local organization, BREATHE LA retains all new contributions for the benefit of Los Angeles residents.

BREATHE LA expenses incurred under these revenue-sharing agreements totaled \$1,352,822 for the year ended June 30, 2016. The amount payable to American Lung Association – State and National is \$1,699,909 as of June 30, 2016.

BREATHE CALIFORNIA OF LOS ANGELES

NOTES TO THE COMBINED FINANCIAL STATEMENTS

10. Commitments and Contingencies

Leases

BREATHE LA owns the building in which its administrative offices are located. BREATHE LA leases available space in the building. At June 30, 2016, BREATHE LA was the lessor on seven non-cancellable operating leases. The leases contain fixed escalation amounts, with future rent increases tied to the prevailing market rates at the applicable dates.

Approximate minimum future rental income on the existing non-cancelable leases as of June 30, 2016 is as follows:

<u>Year ended June 30,</u>	
2017	\$ 326,596
2018	234,798
2019	195,300
2020	185,645
2021	<u>259,644</u>
	<u>\$1,201,983</u>

Rental Income totaled \$531,613 for the year ended June 30, 2016.

ALA Consent Judgment

BREATHE LA, ALA, and ALAC are parties to a consent judgment under which any of them may file a motion to enforce portions of the consent judgment, ALAC has made a motion for enforcement of the consent judgment concerning revenue sharing. During the fiscal year a payment of approximately \$698,000 was paid to ALA/ALAC based on the court decision. BREATHE LA has filed an appeal and the payment is reflected in the 2016 fiscal year.

BREATHE CALIFORNIA OF LOS ANGELES

NOTES TO THE COMBINED FINANCIAL STATEMENTS

11. Fair Value Measurement

The table below presents the balances of assets measured at fair value at June 30, 2016 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Government bonds	\$ 91,266	\$ -	\$ -	\$ 91,266
Corporate bonds	799,559			799,559
Mutual funds – bonds	860,038			860,038
Mutual funds – equity	598,131			598,131
Investments in stocks			20,721	20,721
	<u>2,348,994</u>	<u>-</u>	<u>20,721</u>	<u>2,369,715</u>
Assets held in charitable remainder trusts			498,132	498,132
Beneficial interest in charitable remainder trusts			1,612,806	1,612,806
Total assets	<u>\$2,348,994</u>	<u>\$ -</u>	<u>\$2,131,659</u>	<u>\$4,480,653</u>
Liabilities:				
Liabilities under charitable remainder trusts	\$ -	\$ -	\$150,999	\$150,999
Annuities payable		66,817		66,817
Total liabilities	<u>\$ -</u>	<u>\$66,817</u>	<u>\$150,999</u>	<u>\$217,816</u>

The fair value of investments securities within Level 1 inputs were obtained based on quoted market prices at the closing of the last business day of the fiscal year.

The fair value of government bonds within Level 2 inputs were determined using market data including quotes, benchmark yields, spot rates, and other industry and economic events.

The fair value of annuities payable represents the present value of the future annuity payments.

The fair value of assets and liabilities held in charitable remainder trusts and beneficial interests within Level 3 inputs were determined as described in Notes 4 and 5.

The investment in stocks within Level 3 are valued at the income tax basis.

continued

BREATHE CALIFORNIA OF LOS ANGELES

NOTES TO THE COMBINED FINANCIAL STATEMENTS

11. Fair Value Measurements, continued

The following is a reconciliation of the Level 3 assets and liabilities as of June 30, 2016:

	Investments Stocks	Assets Held in Charitable Remainder Trust	Beneficial Interest in Charitable Remainder Trust	Liabilities under Charitable Remainder Trust
Balance at June 30, 2015	\$21,875	\$520,445	\$1,136,366	\$(164,495)
Net income (losses)	(1,154)	(22,313)	16,027	13,496
Additions	-	-	673,869	-
Proceeds on liquidation	-	-	(213,456)	-
Balance at June 30, 2016	<u>\$20,721</u>	<u>\$498,132</u>	<u>\$1,612,806</u>	<u>\$(150,999)</u>

The table below presents transactions measured at fair value on a non-recurring basis during the year ended June 30, 2016:

	Level 1	Level 2	Level 3	Total
Donated goods and services	<u>\$-</u>	<u>\$357,578</u>	<u>\$-</u>	<u>\$357,758</u>

The fair value of contributed services has been measured on a non-recurring basis using quoted prices for similar assets in inactive markets (Level 2 inputs).

12. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2016 consist of the following:

Hansen Research Fund	\$1,900,166
Charitable trust agreements	1,372,442
COPD medical	436,339
Emphysema Foundation of America	51,261
Emphysema Foundation of Los Angeles	45,587
Samuel J. Sills Professional Fund	<u>15,858</u>
	<u>\$3,821,653</u>

For the year ended June 30, 2016, net assets released from program restrictions were \$680,521.

13. Employee Benefit Plans

BREATHE LA has a deferred compensation plan under Section 457 of the Internal Revenue Code for highly compensated employees. The expense under this plan for the year ended June 30, 2016 was \$22,644.

continued

BREATHE CALIFORNIA OF LOS ANGELES

NOTES TO THE COMBINED FINANCIAL STATEMENTS

14. Permanently Restricted Net Assets

BREATHE LA is the proud recipient of a gift from the Mary E. Carsten Trust for the purpose of establishing a perpetual fund to be known as the Don Marlin and Dr. Mary E. Carsten Marlin fund. The income of this fund shall be used in the discretion of the Board of Directors for one or more postdoctoral fellowships each year for research primarily in the area of bronchial asthma. The principal of this fund shall be held perpetually and shall be invested by the Board of Directors.

15. Prior Period Adjustment

Unrestricted net assets as of June 30, 2015 have been restated to record \$2,557,461 in unrestricted net assets which was incorrectly reported as temporary net assets in prior periods. The beginning net assets totals for June 30, 2015 presented in the financial statements have been restated to reflect the corrected balances as follows:

	As previously Reported	Adjustment	As Restated
<u>Statement of Financial Position:</u>			
Unrestricted net assets, beginning			
June 30, 2015	\$2,845,815	\$543,312	\$3,389,127
Temporary restricted net assets, beginning			
June 30, 2015	\$4,194,169	\$(543,312)	\$3,650,857