

BREATHE CALIFORNIA CENTRAL COAST  
(FORMERLY AMERICAN LUNG ASSOCIATION  
OF THE CENTRAL COAST)

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FINANCIAL STATEMENTS  
AND  
SUPPLEMENTARY INFORMATION

June 30, 2008

BREATHE CALIFORNIA CENTRAL COAST  
(FORMERLY AMERICAN LUNG ASSOCIATION  
OF THE CENTRAL COAST)

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EMERITUS

Alexander W. Berger (1916-2005)  
Griffith R. Lewis

CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Breathe California Central Coast  
Monterey, California

We have audited the accompanying statement of financial position of Breathe California Central Coast as of June 30, 2008, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended. The financial statements are the responsibility of the Breathe California Central Coast. Our responsibility is to express an opinion on the financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's June 30, 2007 financial statements and, in our report dated October 11, 2007, 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 *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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Breathe California Central Coast as of June 30, 2008, 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 27, 2008, on our consideration of Breathe California Central Coast's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Accounting Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures activities for selected projects is presented for purposes of additional analysis and is not a required part of the financial statements of Breathe California Central Coast. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

*Berger/Lewis Accountancy Corporation*

BERGER/LEWIS ACCOUNTANCY CORPORATION  
Santa Cruz, California  
October 27, 2008

## STATEMENT OF FINANCIAL POSITION

June 30, 2008 (With Comparative Totals for 2007)

## ASSETS

	2008		2007
	Unrestricted	Temporarily Restricted	Total
<b>CURRENT ASSETS:</b>			
Cash and Cash Equivalents (Note 2)	\$ 69,015	\$ 263,784	\$ 332,799
Current Receivables (Note 1):			
Accounts Receivable			0
Accounts Receivable - Grants and Bequests	42,136		42,136
Total Receivables	42,136		42,136
Prepaid Expenses (Note 7)	9,408		9,408
Total Current Assets	120,559	263,784	384,343
<b>NON-CURRENT ASSETS:</b>			
Investments			0
Property and Equipment, Net - (Notes 1 & 3)	15,988		15,988
Other Assets:			
Deposit (Note 6)	2,876		2,876
Total Non-Current Assets	18,864		18,864
Total Assets	\$ 139,423	\$ 263,784	\$ 403,207

## LIABILITIES AND NET ASSETS

<b>CURRENT LIABILITIES:</b>			
Accounts Payable	\$ 21,195		\$ 21,195
Accrued Vacation	6,135		6,135
Accrued Pension (Note 8)			0
Accrued 403b			0
Sub-lease Rent Deposit	300		300
Total Current Liabilities	27,630		27,630
<b>NET ASSETS:</b>			
Temporarily Restricted (Note 9)		\$ 263,784	263,784
Unrestricted	111,793		111,793
Total Net Assets	111,793	263,784	375,577
Total Liabilities and Net Assets	\$ 139,423	\$ 263,784	\$ 403,207

See Independent Auditor's Report and Accompanying Notes to Financial Statements

## STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended June 30, 2008 (With Comparative Totals for 2007)

	2008		2007
	Unrestricted	Temporarily Restricted	Total
<b><u>PUBLIC SUPPORT AND REVENUE</u></b>			
<b>CONTRIBUTIONS &amp; OTHER PUBLIC SUPPORT:</b>			
<b>DIRECT MAIL:</b>			
Christmas Seals	\$ 4,888		\$ 46
Extra Contribution Appeals			
Other Direct Mail	4,568		1,687
Total Direct Mail	<u>9,456</u>		<u>1,733</u>
<b>OTHER CONTRIBUTIONS:</b>			
Combined Federal Campaign	1,775		1,014
Workplace Giving	767		751
Memorials	1,110		2,050
Bequests		\$ 191,980	93,966
Individual/Major Gifts and Campaigns	2,215		670
Cyber Cash		0	10
Other Contributions	11,048		2,807
<b>REVENUE:</b>			
Foundation Grants		288,000	70,310
Government Grants	197,265		438,944
Investment Income	11,102		9,999
Program Service Fees	53,288		101,160
Miscellaneous	3,524		22
<b>NET ASSETS RELEASED FROM RESTRICTIONS:</b>			
Foundation Grants	171,921	(171,921)	
Local Bequests	191,980	(191,980)	
Total Public Support and Revenue	<u>655,451</u>	<u>116,079</u>	<u>771,530</u>
			<u>723,436</u>

See Independent Auditor's Report and Accompanying Notes to Financial Statements

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
(Continued)

For the Year Ended June 30, 2008 (With Comparative Totals for 2007)

	2008		2007
	Unrestricted	Temporarily Restricted	Total
<b>EXPENSES</b>			
<b>PROGRAM SERVICES:</b>			
Tobacco Control	\$ 163,999		\$ 157,029
Asthma	251,314		355,926
Other Lung Disease	80,535		113,426
Advocacy & Policy	24,222		22,072
<b>Total Program Services</b>	<b>520,070</b>		<b>648,453</b>
<b>SUPPORTING SERVICES:</b>			
Fundraising	33,234		35,066
Management and General	77,713		82,956
<b>Total Supporting Services</b>	<b>110,947</b>		<b>118,022</b>
<b>TOTAL EXPENSES</b>	<b>631,017</b>		<b>766,475</b>
<b>CHANGE IN NET ASSETS FROM OPERATIONS</b>	<b>24,434</b>	<b>\$ 116,079</b>	<b>140,513</b>
<b>NON-OPERATING ACTIVITIES:</b>			
Investments -			
Unrealized Gains/Losses on Investments	(3,978)		266
Settlement ALA National - Shared Income	(13,195)		(13,195)
Reorganization Costs	(1,952)		(12,529)
<b>CHANGE IN NET ASSETS</b>	<b>5,309</b>	<b>116,079</b>	<b>(55,302)</b>
<b>NET ASSETS, Beginning of Year</b>	<b>106,484</b>	<b>147,705</b>	<b>309,491</b>
<b>NET ASSETS, End of Year</b>	<b>\$ 111,793</b>	<b>\$ 263,784</b>	<b>\$ 254,189</b>

See Independent Auditor's Report and Accompanying Notes to Financial Statements

**BREATHE CALIFORNIA CENTRAL COAST  
STATEMENT OF FUNCTIONAL EXPENSES**

For the Year Ended June 30, 2008 (With Comparative Totals for 2007)

	Program Services			Supporting Activities			Total All Funds	
	Tobacco Control	Asthma	Other Lung Disease	Advocacy & Policy	Fund Raising	Management & General	Total FY 2008	Prior FY 2007
Salaries	\$ 78,891	\$ 97,019	\$ 22,348	\$ 16,897	\$ 24,803	\$ 28,132	\$ 268,090	\$ 403,883
Employee Benefits	4,730	4,335	2,235	1,690	2,480	2,813	18,283	33,134
Pension Plan	3,556	4,415	1,104	858	1,104	1,226	12,263	44,281
Payroll Taxes	5,997	9,702	2,045	1,546	2,269	2,574	24,133	35,105
<b>Total Salaries and Employee Benefits</b>	<b>93,174</b>	<b>115,471</b>	<b>27,732</b>	<b>20,991</b>	<b>30,656</b>	<b>34,745</b>	<b>322,769</b>	<b>516,403</b>
Professional and Contracted Services	28,225	65,731	4,220	143	1,218	15,541	115,078	63,109
Occupancy	18,928	22,715	5,679	250		5,285	52,857	54,372
Telephone	4,242	5,092	1,273			1,178	11,785	12,228
Office Supplies and Equipment	1,466	865	277		290	2,922	5,820	4,902
Equipment Rental	3,286	2,159	430			652	6,527	6,798
Printing and Publications	566	2,299	347				3,212	
Postage and Shipping	658	81			220		959	5,220
Travel and Transportation	3,165	4,926		2,284		1,953	12,328	12,450
Staff Training, Development and Recruitment					850	4,446	5,296	3,202
Meetings and Conferences								634
Support of Other Organizations/Public Education								1,034
Dues and Subscriptions						812	812	293
Miscellaneous Expenses						10,179	10,733	1,177
Depreciation								3,414
Pledges Not Received								3,701
Direct Expense - Grant Programs	10,289	31,975					42,264	25,798
Direct Expense - Program Events			40,577				40,577	51,740
<b>Total Functional Expenses</b>	<b>163,999</b>	<b>251,314</b>	<b>80,535</b>	<b>24,222</b>	<b>33,234</b>	<b>77,713</b>	<b>631,017</b>	<b>766,475</b>
Reorganization Expense	1,952	0	0		0	0	1,952	12,529
<b>Total Expenses</b>	<b>\$ 165,951</b>	<b>\$ 251,314</b>	<b>\$ 80,535</b>	<b>\$ 24,222</b>	<b>\$ 33,234</b>	<b>\$ 77,713</b>	<b>\$ 632,969</b>	<b>\$ 779,004</b>

See Independent Auditor's Report and Accompanying Notes to Financial Statements

## STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2008 (With Comparative Totals for 2007)

	<u>2008</u>	<u>2007</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in Net Assets	\$ 121,388	\$ (55,302)
Adjustments to Reconcile Increase in Net Assets to Net Cash Used by Operating Activities:		
Depreciation	3,414	3,414
Change in Fair Value of Securities	3,978	(266)
Loss on Write Off of MRS/Other Non Cash	(3,829)	9,733
(Increase) Decrease:		
Accounts Receivable	76,195	(4,509)
Prepaid Expenses	(1,845)	5,566
Increase (Decrease):		
Accounts Payable and Accrued Expenses	(67,946)	14,909
Sub-lease Deposit	300	
Deferred Revenue		(20,000)
Net Cash Provided (Used) by Operating Activities	<u>131,655</u>	<u>(46,455)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Sale of Securities	<u>1,765</u>	
Net Cash Provided by Investing Activities	<u>1,765</u>	
NET INCREASE (DECREASE) IN CASH	133,420	(46,455)
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>199,379</u>	<u>245,834</u>
CASH AND CASH EQUIVALENTS, End of Year	<u>\$ 332,799</u>	<u>\$ 199,379</u>

See Independent Auditor's Report and Accompanying Notes to Financial Statements

## NOTES TO FINANCIAL STATEMENTS

June 30, 2008

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## 1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Activities – American Lung Association of the Central Coast, a nonprofit corporation, gave up its affiliation with the American Lung Association during the fiscal year ended June 30, 2006. Due to the disassociation with the American Lung Association, the Organization changed its name to Breathe California Central Coast. Its principal programs strive for the prevention, control and cure of lung disease through education of the public, advocacy of a healthy environment, and support groups for those with lung disease.

Basis of Accounting - The financial statements of the Organization have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

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 the Organization's financial statements for the year ended June 30, 2007, from which the summarized information was derived.

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.

Contributions - Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions.

Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished) temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Expense Allocation - The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Income Tax Status - The Organization qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and California Revenue and Taxation Code Section 23701(d) and therefore, has no provision for income taxes.

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NOTES TO FINANCIAL STATEMENTS  
(Continued)

June 30, 2008

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1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Fixed Assets and Depreciation - Fixed assets are recorded at cost, if purchased. Donated fixed assets are recorded at fair market value at the date of donation. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. Depreciation expense for the year ended June 30, 2008 was \$3,414.

Donated Services - No amounts have been reflected in the financial statements for donated services. The Organization generally pays for services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific programs, local programs and committee assignments.

Accounts, Grants and Pledges Receivable - No allowance for uncollectible grants or pledges receivable has been made as management estimates that the write down, if any, is immaterial to the financial statements.

Concentration of Revenue and Credit Risk - During the fiscal year ended June 30, 2008, over 50% of the Organization's total revenue, gains and other support consisted of foundation, corporate, and government grants. Credit risk with respect to accounts receivable is considered low because a substantial portion of the receivables are due from foundations and government sources.

2. CASH FLOWS STATEMENT:

For purposes of reporting cash flows, cash includes cash and cash equivalents, consisting of cash in operating bank accounts, cash on hand and cash in certificates of deposits and money market accounts.

As of June 30, 2008, cash and cash equivalents included the following:

Cash	\$ 7,484
Money Market Accounts	<u>325,315</u>
	<u>\$ 332,799</u>

3. PROPERTY AND EQUIPMENT:

As of June 30, 2008, property and equipment were as follows:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Data Processing Equipment	\$ 56,905	\$ 53,161	\$ 3,744
Property, Equipment & Leasehold Improvements	<u>59,210</u>	<u>46,966</u>	<u>12,244</u>
	<u>\$116,115</u>	<u>\$ 100,127</u>	<u>\$ 15,988</u>

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NOTES TO FINANCIAL STATEMENTS  
(Continued)

June 30, 2008

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4. CONTINGENT LIABILITIES:

Grants, bequests and endowments require the fulfillment of certain conditions as set forth in the issuing instrument. Failure to fulfill the conditions or in the case of endowments, failure to continue to fulfill them, could result in the return of the funds to grantors. Although that is a possibility, the Board deems the contingency remote.

Breathe California Central Coast pays American Lung Association a portion of certain revenues under a revenue sharing agreement. Breathe California Central Cost recorded \$13,195 as an expense for the year ended June 30, 2008 under the terms of the agreement. Determination of what revenues are subject to that agreement is subject to interpretation and additional amounts could be due.

5. INTEREST IN MRS:

Through the end of 1997, the Organization participated with other lung associations in the Western Enhancement Services for Charitable Organizations (WESCO) for direct mail campaign services. Directors and shareholders (ALA associations) voted July 15, 1998 to merge WESCO with the ALA based direct mail services company, CADET, with 75% of associations voting in the affirmative. Organizational consolidation was completed December 31, 1998 and CADET members bought stock in WESCO January 1, 1999. Operational consolidation was completed December 31, 1999. The new company is known as Marketing Response Systems, or MRS.

The value of each association's investment in WESCO, less the value of fixed assets, was refunded to each association during fiscal years 1998-1999 and 1999-2000. The remaining value on the financial statements as of June 30, 2006 was written off as of June 30, 2007.

6. LEASE COMMITMENTS:

The Organization leases office space by an agreement that will expire on June 30, 2009. On an annual basis rent shall be increased by the cost of living index (not to exceed 3.7%). Rent expense as of June 30, 2008 was \$3,155 per month. Future payments are due as follows:

<u>Fiscal Year Ended</u>	<u>Amount</u>
June 30, 2009	\$ 37,860

As of June 30, 2008, the Organization has paid \$2,876 as a security deposit on the lease.

7. PREPAID EXPENSES:

Prepaid expenses consisted of the following items as of June 30, 2008:

Prepaid Insurance	\$ 4,882
Prepaid Rent	3,311
Prepaid Expenses	<u>1,215</u>
	<u>\$ 9,408</u>

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NOTES TO FINANCIAL STATEMENTS  
(Continued)

June 30, 2008

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8. PENSION PLAN:

Defined Benefit Pension Plan:

Through June 30, 2006, the Organization maintained a Defined Benefit Plan for its employees through the national office of the American Lung Association. That plan is currently frozen and in process of termination. Participants were eligible to participate after one year of employment and are fully vested after five years of employment. As of June 30, 2008, the Organization has made payments to fully fund the Defined Benefit Plan.

Defined Contribution Pension Plan:

The Organization adopted a 403(b) plan which covers all eligible employees under which each participating employee establishes a tax-deferred account. The Organization may make discretionary contributions. For the year ended June 30, 2008, the Organization incurred a cost of \$3,300 for the defined contribution plan.

9. TEMPORARILY RESTRICTED NET ASSETS AND EXPENSES FUNDED BY RESTRICTED REVENUE:

Temporarily restricted net assets consisted of the following items of June 30, 2008:

Miscellaneous	\$ 13
California Wellness	129,366
Local Bequest, Restricted To Use in the Central Coast	<u>134,405</u>
Total	<u>\$ 263,784</u>

10. LINE OF CREDIT:

A line of credit agreement with Santa Barbara Bank & Trust and the Organization was negotiated effective October 2007, and will expire October 2008. The maximum amount of this line is \$35,000. Each fund advance must be requested and authorized individually by the Organization's Executive Director or Board representative.

11. FINANCIAL DIFFICULTIES:

Due to the economic climate subsequent to June 30, 2008, the Organization is experiencing a decline in private foundation and other donations that significantly impact the ability of the Organization to adequately fund future operations.

