

**Breathe California of the Bay Area**  
**Financial Statements**  
**June 30, 2009**  
**(With Comparative Totals for 2008)**

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

Certified  
Public  
Accountants

## INDEPENDENT AUDITORS' REPORT

San Francisco  
Palo Alto  
San Jose  
St. Helena

We have audited the accompanying statement of financial position of Breathe California of the Bay Area (the Organization) as of June 30, 2009, and the related statement of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization'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 the Organization's June 30, 2008 financial statements, which were audited by other auditors whose report dated November 7, 2008, expressed an unqualified opinion on those statements.

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 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 of the Bay Area as of June 30, 2009, and the changes in its net assets and its cash flow for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

*Frank, Rimerman & Co. LLP*

November 13, 2009

**Breathe California of the Bay Area**  
**Statement of Financial Position**  
**June 30, 2009 (With Comparative Totals at June 30, 2008)**

| ASSETS                                |              |              |
|---------------------------------------|--------------|--------------|
|                                       | 2009         | 2008         |
| Current Assets                        |              |              |
| Cash and cash equivalents             | \$ 177,361   | \$ 136,619   |
| Accounts receivable                   | 144,191      | 106,865      |
| Inventories                           | 79,908       | 84,106       |
| Prepaid expenses                      | 6,404        | 5,601        |
| Bequest receivable                    | -            | 19,720       |
| Total current assets                  | 407,864      | 352,911      |
| Investments                           | 908,965      | 1,316,345    |
| Property and Equipment, net           | 748,963      | 767,634      |
| Other Assets                          | 1,810        | 1,810        |
| Total assets                          | \$ 2,067,602 | \$ 2,438,700 |
| LIABILITIES AND NET ASSETS            |              |              |
| Current Liabilities                   |              |              |
| Accounts payable and accrued expenses | \$ 68,209    | \$ 54,279    |
| Accrued pension cost, current portion | 122,000      | -            |
| Note payable, current portion         | 82,381       | 28,191       |
| Total current liabilities             | 272,590      | 82,470       |
| Accrued Pension Cost                  | 308,306      | 162,000      |
| Note Payable, net of current portion  | -            | 82,350       |
| Total liabilities                     | 580,896      | 326,820      |
| Commitments (Notes 5 and 6)           |              |              |
| Net Assets                            |              |              |
| Unrestricted                          | 1,486,706    | 2,110,945    |
| Temporarily restricted                | -            | 935          |
| Total net assets                      | 1,486,706    | 2,111,880    |
| Total liabilities and net assets      | \$ 2,067,602 | \$ 2,438,700 |

See Notes to Financial Statements

**Breathe California of the Bay Area**  
**Statement of Activities**  
**Year Ended June 30, 2009 (With Comparative Totals for 2008)**

|  | <u>2009</u>         | <u>2008</u>         |
|--|---------------------|---------------------|
| Support and Revenues   |                     |                     |
| Contributions and donations:   |                     |                     |
| Donations  | \$ 96,173           | \$ 53,181           |
| Vehicle donation income  | 2,641               | 2,804               |
| Special events (net of costs of direct benefit to participants<br>of \$50,737 and \$45,383 in 2009 and 2008, respectively) | 59,551              | 69,126              |
| Other contributions:   |                     |                     |
| Memorials and bequests   | 40,691              | 515,271             |
| Other  | 4,351               | 29,579              |
| In-kind contributions  | 224,636             | 250,455             |
|  | <u>428,043</u>      | <u>920,416</u>      |
| Revenues and grants:   |                     |                     |
| Government grants  | 435,259             | 310,796             |
| Program service fees   | 71,538              | 69,503              |
|  | <u>506,797</u>      | <u>380,299</u>      |
| Total support, revenues and grants   | <u>934,840</u>      | <u>1,300,715</u>    |
| Expenses   |                     |                     |
| Program services:  |                     |                     |
| Environmental health   | 339,255             | 286,357             |
| Tobacco control  | 219,887             | 481,125             |
| Asthma and other lung disease  | 245,075             | 334,334             |
| Community outreach   | 257,875             | 374,916             |
|  | <u>1,062,092</u>    | <u>1,476,732</u>    |
| Supporting services:   |                     |                     |
| Fund raising   | 88,073              | 141,128             |
| Administrative and general   | 14,481              | 36,369              |
| Total expenses   | <u>1,164,646</u>    | <u>1,654,229</u>    |
| Change in net assets from operations   | <u>(229,806)</u>    | <u>(353,514)</u>    |
| Non-operating activities:  |                     |                     |
| Investment income (loss)   | (167,134)           | 20,021              |
| Pension-related changes other than net periodic pension cost   | <u>(228,234)</u>    | <u>37,725</u>       |
| Change in Net Assets   | (625,174)           | (295,768)           |
| Net Assets, beginning of year  | <u>2,111,880</u>    | <u>2,407,648</u>    |
| Net Assets, end of year  | <u>\$ 1,486,706</u> | <u>\$ 2,111,880</u> |

See Notes to Financial Statements

**Breathe California of the Bay Area**  
**Statement of Functional Expenses**  
**Year Ended June 30, 2009 (With Comparative Totals for 2008)**

|  | Program Services        |                    |                                  |                       | Support Services |                               | Total<br>2009       | Total<br>2008       |
|--|-------------------------|--------------------|----------------------------------|-----------------------|------------------|-------------------------------|---------------------|---------------------|
|  | Environmental<br>Health | Tobacco<br>Control | Asthma and Other<br>Lung Disease | Community<br>Outreach | Fund Raising     | Administrative<br>and General |                     |                     |
| Direct Expenses:                                       |                         |                    |                                  |                       |                  |                               |                     |                     |
| Salaries   | \$ 208,557              | \$ 141,242         | \$ 135,227                       | \$ 156,465            | \$ 48,873        | \$ 8,767                      | \$ 699,131          | \$ 672,114          |
| Employee benefits and payroll taxes                    | 36,880                  | 28,241             | 21,915                           | 32,287                | 9,364            | 2,043                         | 130,730             | 130,867             |
| Professional fees                                      | 24,766                  | 10,826             | 6,839                            | 22,401                | 14,130           | 513                           | 79,475              | 127,588             |
| Building occupancy                                     | 6,140                   | 4,870              | 3,499                            | 4,868                 | 1,238            | 270                           | 20,885              | 22,407              |
| Insurance  | 3,193                   | 2,479              | 1,921                            | 2,672                 | 823              | 180                           | 11,268              | 10,534              |
| Telephone  | 3,991                   | 2,815              | 1,993                            | 2,115                 | 126              | 28                            | 11,068              | 9,702               |
| Supplies   | 4,855                   | 1,927              | 4,231                            | 1,314                 | 253              | 51                            | 12,631              | 12,055              |
| Office equipment                                       | 15,249                  | 11,841             | 9,879                            | 12,760                | 3,708            | 809                           | 54,246              | 96,570              |
| Printing and publishing                                | 3,794                   | 1,975              | 6,367                            | 4,531                 | 3,784            | 6                             | 20,457              | 29,395              |
| Postage and shipping                                   | 2,928                   | 2,044              | 1,770                            | 3,139                 | 896              | 24                            | 10,801              | 14,909              |
| Dues and subscriptions                                 | 5,023                   | 512                | 532                              | 699                   | 971              | 249                           | 7,986               | 5,808               |
| Media expenses   | 4,904                   | 239                | 127                              | 2,526                 | 31               | 7                             | 7,834               | 23,269              |
| Awards and grants                                      | -                       | -                  | 40,000                           | -                     | -                | -                             | 40,000              | 26,274              |
| Meetings and travel                                    | 7,271                   | 1,786              | 3,733                            | 2,301                 | 304              | 349                           | 15,744              | 14,618              |
| Support of other organizations and projects            | 145                     | 113                | 87                               | 121                   | 32               | 7                             | 505                 | 1,553               |
| Depreciation   | 8,941                   | 6,943              | 5,380                            | 7,484                 | 2,305            | 503                           | 31,556              | 32,434              |
| <b>Total direct expenses</b>                           | <b>336,637</b>          | <b>217,853</b>     | <b>243,500</b>                   | <b>255,683</b>        | <b>86,838</b>    | <b>13,806</b>                 | <b>1,154,317</b>    | <b>1,230,097</b>    |
| Payments to American Lung Association                  | 2,254                   | 1,751              | 1,356                            | 1,887                 | 773              | 581                           | 8,602               | 182,574             |
| Payments to American Lung Association of<br>California | 364                     | 283                | 219                              | 305                   | 462              | 94                            | 1,727               | 241,558             |
|  | <b>2,618</b>            | <b>2,034</b>       | <b>1,575</b>                     | <b>2,192</b>          | <b>1,235</b>     | <b>675</b>                    | <b>10,329</b>       | <b>424,132</b>      |
| <b>Total expenses</b>                                  | <b>\$ 339,255</b>       | <b>\$ 219,887</b>  | <b>\$ 245,075</b>                | <b>\$ 257,875</b>     | <b>\$ 88,073</b> | <b>\$ 14,481</b>              | <b>\$ 1,164,646</b> | <b>\$ 1,654,229</b> |

See Notes to Financial Statements

**Breathe California of the Bay Area**  
**Statement of Cash Flows**  
**Year Ended June 30, 2009 (With Comparative Totals for 2008)**

|   | <u>2009</u>       | <u>2008</u>       |
|---|-------------------|-------------------|
| Cash Flows from Operating Activities  |                   |                   |
| Change in net assets  | \$ (625,174)      | \$ (295,768)      |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: |                   |                   |
| Depreciation and amortization   | 31,556            | 32,434            |
| Realized and unrealized loss on investments   | 212,673           | 3,852             |
| Changes in operating assets and liabilities:  |                   |                   |
| Accounts receivable   | (37,326)          | (3,031)           |
| Bequest receivable  | 19,720            | 1,230,280         |
| Inventories   | 4,198             | (2,310)           |
| Prepaid expenses  | (803)             | (5,335)           |
| Accounts payable and accrued expenses   | 282,236           | 2,170             |
| Shared income payable   | -                 | (75,500)          |
| Net cash (used in) provided by operating activities   | <u>(112,920)</u>  | <u>886,792</u>    |
| Cash Flows from Investing Activities  |                   |                   |
| Proceeds from maturities and sales of investments   | 1,993,532         | 166,854           |
| Purchase of investments   | (1,753,286)       | (980,280)         |
| Reinvested dividends and interest   | (45,539)          | (19,296)          |
| Purchase of property and equipment  | (12,885)          | (15,065)          |
| Net cash provided by (used in) investing activities   | <u>181,822</u>    | <u>(847,787)</u>  |
| Cash Flows from Financing Activities  |                   |                   |
| Repayments of note payable  | (28,160)          | (26,298)          |
| Net cash used in financing activities   | <u>(28,160)</u>   | <u>(26,298)</u>   |
| Net increase in cash and cash equivalents   | 40,742            | 12,707            |
| Cash and Cash Equivalents, beginning of year  | <u>136,619</u>    | <u>123,912</u>    |
| Cash and Cash Equivalents, end of year  | <u>\$ 177,361</u> | <u>\$ 136,619</u> |
| Supplemental Disclosures of Cash Flow Information   |                   |                   |
| Cash paid during the year for interest  | <u>\$ 6,875</u>   | <u>\$ 8,738</u>   |

See Notes to Financial Statements

## Breathe California of the Bay Area

### Notes to Financial Statements

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#### 1. Organization

Breathe California of the Bay Area (the Organization) is a not-for-profit, voluntary health organization 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 health. 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).

#### 2. Significant Accounting Policies

##### *Financial Statement Presentation:*

The Organization prepares its financial statements on the accrual basis of accounting. The Organization segregates its assets and liabilities, operations and cash flows into three categories: unrestricted, temporarily restricted and permanently restricted. Unrestricted net assets are those available for use in the general activities of the Organization, without restrictions by donors. Temporarily restricted net assets are those whose use is restricted by the donor, based on time or purpose. Generally, these funds will be expended for a specified purpose or over a period of time and are not currently available for general use. Permanently restricted net assets are those assets restricted by the donor in perpetuity. The Organization's net assets are all unrestricted at June 30, 2009. At June 30, 2008, the unrestricted net assets were \$2,110,945 and temporarily restricted net assets were \$935.

## Breathe California of the Bay Area

### Notes to Financial Statements

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#### 2. Significant Accounting Policies (continued)

##### *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 increases in unrestricted net assets if the restrictions 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.

##### *Government Grant Revenue:*

Government grant revenue represents third-party reimbursement for program services from governmental agencies that are exchange transactions recognized as revenue in the period in which the reimbursable costs are incurred.

##### *Donated Services:*

Donated services are recognized as contributions at their fair value, if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by individuals possessing those skills, and would otherwise be purchased by the Organization if not provided by donations. The amounts reflected in the accompanying financial statements as in-kind services are offset by like amounts of expenses. Donated services in 2009 were valued at \$180,000 (\$160,000 in 2008) and consisted of \$70,000 of media donations, and \$110,000 of volunteer services. Donated supplies are reported at fair value at the date the contribution is received. Donated supplies in 2009 were valued at \$44,600 (\$90,500 in 2008).

##### *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 the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period in the financial statements and accompanying notes. Actual results could differ from those estimates.

## Breathe California of the Bay Area

### Notes to Financial Statements

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#### 2. Significant Accounting Policies (continued)

##### *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 full 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, 2008, from which the summarized information was derived.

##### *Reclassifications:*

Certain reclassifications have been made to prior year balances to conform with current year presentation.

##### *Concentration of Credit Risk:*

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

The allowance for losses arising from uncollectible accounts is based upon the Organization's historical experience and management's evaluation of collectability of outstanding accounts receivable. Management believes all accounts receivable at June 30, 2009 and 2008 are collectable and no allowance for doubtful accounts is deemed necessary.

The Company had one major grantor in 2009 (one major donor in 2008). Major grantors and donors are defined as those who represent greater than ten percent of the Organization's total annual support, revenues and grants. The major grantor accounted for 15% of 2009 support, revenues and grants, and 54% of accounts receivable at June 30, 2009 (the donor accounted for 32% of 2008 support, revenues and grants, and 16% of accounts receivable at June 30, 2008).

The Organization primarily maintains its cash and cash equivalents and investments with a credit union and major U.S. brokerage firm. At June 30, 2009, deposits with the credit union were fully insured by the federal government and investments with the brokerage firm were insured by the Securities Investor Protection Corporation for up to \$500,000, including \$100,000 for cash deposits.

## Breathe California of the Bay Area

### Notes to Financial Statements

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#### 2. Significant Accounting Policies (continued)

##### *Cash and Cash Equivalents:*

For purposes of the Statement of Cash Flows, the Organization considers all highly liquid debt instruments purchased with a remaining maturity of three months or less to be cash equivalents.

##### *Inventories:*

Inventories are valued at the lower of cost or market and consist primarily of educational media, incentives and respiratory care supplies.

##### *Investments:*

Marketable securities consist of fixed income and equity securities and are presented at fair value based on prices quoted on established securities exchanges. Unrealized gains and losses are included in non-operating activities.

##### *Property, Equipment and Depreciation:*

The Organization capitalizes property and equipment acquisitions 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 improvements 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 changes in circumstances indicate the carrying value of assets may not be recoverable.

##### *Risks and Uncertainties:*

Investments are exposed to various risks, such as changes in interest rate, market and credit risks. Starting in the third quarter of 2008, financial market and economic conditions worsened considerably. These and other economic concerns continue to challenge the global financial markets; hence, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the Organization's financial statements.

## Breathe California of the Bay Area

### Notes to Financial Statements

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#### 2. Significant Accounting Policies (continued)

##### *Income Taxes:*

The Organization has been determined to be exempt from federal income taxes under Section 501(a) of the Internal Revenue Code (the Code), as an organization described in Section 501(c)(3) of the Code. 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 income taxes is provided in the accompanying financial statements.

##### *Statement of Functional Expenses:*

The costs of providing the Organization's various programs and services have been summarized on a functional basis in the Statement of Functional Expenses. Direct expenses are allocated to the related program or service benefited. Indirect expenses are generally allocated based on the direct salaries incurred.

##### *Recent Accounting Pronouncement:*

In July 2006, the Financial Accounting Standards Board issued Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), which applies to financial statements of non-public entities, including tax-exempt entities, that are issued for fiscal years beginning after December 15, 2008. The Organization is currently assessing the impact of FIN 48 on its financial statements.

#### 3. Investments

The Organization categorizes its investments in the financial statements into a three-level hierarchy for fair value measurements based on the nature of inputs used in the valuation of an asset or liability as of the measurement date. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

**Breathe California of the Bay Area**  
**Notes to Financial Statements**

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3. Investments (continued)

The three-level hierarchy for fair value measurements is defined as follows:

**Level 1:** Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

**Level 2:** Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

**Level 3:** Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

An investment's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

As of June 30, 2009 and 2008, all of the Organization's financial instruments were carried at fair value under the Level 1 valuation hierarchy based on quoted prices in an active market.

Investment income (loss) consists of the following for the year ended June 30, 2009:

|                           | Interest and<br>Dividends | Net<br>Realized and<br>Unrealized<br>Income (Loss) | Total               |
|---------------------------|---------------------------|--|---------------------|
| Fixed income securities   | \$ 18,263                 | \$ 6,265   | \$ 24,528           |
| Equity securities         | 26,172                    | (218,938)  | (192,766)           |
| Cash and cash equivalents | 1,104                     | -  | 1,104               |
|                           | <u>\$ 45,539</u>          | <u>\$ (212,673)</u>                                | <u>\$ (167,134)</u> |

**Breathe California of the Bay Area**  
**Notes to Financial Statements**

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4. Property and Equipment

Property and equipment consist of the following at June 30:

|  | <u>2009</u>       | <u>2008</u>       |
|--|-------------------|-------------------|
| Land   | \$ 366,000        | \$ 366,000        |
| Building                                       | 406,668           | 406,668           |
| Office equipment                               | 129,977           | 129,977           |
| Leasehold improvements                         | 110,681           | 97,796            |
| Vehicles                                       | <u>16,211</u>     | <u>16,211</u>     |
|  | 1,029,537         | 1,016,652         |
| Less accumulated depreciation and amortization | <u>280,574</u>    | <u>249,018</u>    |
|  | <u>\$ 748,963</u> | <u>\$ 767,634</u> |

5. Note Payable

The Organization has a mortgage note payable with a financial institution. Borrowings bear interest at a rate of 7% per annum and is payable in monthly installments of \$3,000, including interest, through February 2010. A lump sum payment of \$63,000 is required in March 2010. Borrowings are secured by a deed of trust on the Organization's building.

6. Pension Plan

The Organization has a noncontributory defined pension plan covering substantially all of its 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 resolved in March 2009 to close the plan to new participants. The Organization's expected contributions in 2010 are \$122,000, of which \$60,000 was paid in July of 2010. No contributions were made in 2009 or 2008.

Plan assets primarily consist of listed marketable securities. The measurement dates used to determine the pension measurements for the majority of the plan assets and benefit obligations were June 30, 2009 and 2008.

**Breathe California of the Bay Area**  
**Notes to Financial Statements**

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6. Pension Plan (continued)

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

|   | <u>2009</u>         | <u>2008</u>         |
|---|---------------------|---------------------|
| Obligations and funded status   |                     |                     |
| Projected benefit obligation  | \$ (1,083,468)      | \$ (969,261)        |
| Plan assets at fair value   | <u>653,162</u>      | <u>807,261</u>      |
| Funding status (accrued pension cost)   | <u>\$ (430,306)</u> | <u>\$ (162,000)</u> |
| Accumulated benefit obligation  | <u>\$ 1,003,467</u> | <u>\$ 902,280</u>   |
| Plan expenses paid  | <u>\$ 7,243</u>     | <u>\$ 2,858</u>     |
| Components of net periodic benefit cost:  |                     |                     |
| Service cost  | \$ 42,262           | \$ 53,891           |
| Interest cost   | 63,190              | 58,121              |
| Expected return on plan assets  | (65,380)            | (68,831)            |
| Recognized net loss   | <u>-</u>            | <u>1,357</u>        |
| Net periodic benefit cost   | <u>\$ 40,072</u>    | <u>\$ 44,538</u>    |
| Cumulative other changes in plan assets and obligations<br>recognized as change in unrestricted net assets: |                     |                     |
| Balance, beginning of year  | \$ 66,740           | \$ 104,465          |
| Current year net loss (gain)  | <u>228,234</u>      | <u>(37,725)</u>     |
| Balance, end of year  | <u>\$ 294,974</u>   | <u>\$ 66,740</u>    |
| Weighted average assumptions used to determine:   |                     |                     |
| Benefit obligations at June 30:   |                     |                     |
| Discount rate   | 6.2%                | 6.8%                |
| Rate of compensation increase   | 3.0%                | 3.0%                |
| Net periodic benefit cost for the year ended June 30:   |                     |                     |
| Discount rate   | 6.8%                | 6.0%                |
| Rate of compensation increase   | 3.0%                | 3.0%                |
| Expected return on plan assets  | 7.50%               | 8.25%               |

## Breathe California of the Bay Area

### Notes to Financial Statements

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#### 6. Pension Plan (continued)

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 in 2009 were \$30,000 (\$11,000 in 2008). 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:

|             |    |         |
|-------------|----|---------|
| 2010        | \$ | 37,000  |
| 2011        |    | 40,000  |
| 2012        |    | 83,000  |
| 2013        |    | 93,000  |
| 2014        |    | 97,000  |
| 2015 - 2019 | \$ | 469,000 |

Plan asset allocation as of June 30, 2009 is 50% equity securities and 50% fixed income investments.

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 investment 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 Organizations investment policy.

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7. Allocation of Joint Costs

Joint costs are those costs shared with other organizations, including other chapters of Breathe California, for fundraising events they enter into together. The following joint costs were incurred for informational material and activities that included fundraising appeals for the years ended June 30:

|                               | <u>2009</u>     | <u>2008</u>      |
|-------------------------------|-----------------|------------------|
| Program services:             |                 |                  |
| Environmental health          | \$ 997          | \$ 2,954         |
| Tobacco control               | 775             | 3,532            |
| Asthma and other lung disease | 600             | 4,085            |
| Community outreach            | <u>835</u>      | <u>4,709</u>     |
|                               | <u>3,207</u>    | <u>15,280</u>    |
| Support services:             |                 |                  |
| Fund raising                  | 6,538           | 12,972           |
| Administrative and general    | <u>20</u>       | <u>554</u>       |
|                               | <u>6,558</u>    | <u>13,526</u>    |
|                               | <u>\$ 9,765</u> | <u>\$ 28,806</u> |

8. Termination of Affiliate Agreement

Effective February 13, 2006, the Organization terminated its affiliate agreements and separated from ALA and ALAC.

Prior to February 13, 2006, in connection with its affiliate agreement, the Organization participated in various direct mail campaigns that were conducted by ALA. As an affiliate, the Organization was required to pay certain fees to both ALA and ALAC based upon predetermined percentages of the direct mail campaigns and certain other revenues. These fees represented the Organization's share of program development, research, media and advocacy activities conducted at the national and state levels.

Although the Organization is legally separated from both ALA and ALAC, certain revenues for a certain period of time will continue to be shared with ALA and ALAC. Payment of shared revenues amounted to \$10,300 for the year ended June 30, 2009 (\$424,200 in 2008).

**Breathe California of the Bay Area**  
**Notes to Financial Statements**

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9. Subsequent Events

Subsequent events have been evaluated through the date of the independent auditors report and no items requiring disclosure in the financial statements have been identified.