

Breathe California of the Bay Area
Financial Statements
June 30, 2010 and 2009

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

Certified
Public
Accountants

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying statement of financial position of Breathe California of the Bay Area (the Organization) as of June 30, 2010 and 2009, and the related statements of activities, functional expenses and cash flows for the years 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 audits.

San Francisco
Palo Alto
San Jose
St. Helena

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 audits provide 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, 2010 and 2009, and the changes in its net assets and its cash flow for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Frank, Rimerman + Co. LLP

November 10, 2010

Breathe California of the Bay Area
Statements of Financial Position

| | June 30, | |
|---------------------------------------|---------------------|---------------------|
| | 2010 | 2009 |
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 47,363 | \$ 177,361 |
| Accounts receivable | 81,593 | 144,191 |
| Inventory | 88,468 | 79,908 |
| Prepaid expenses | 5,281 | 6,404 |
| Total current assets | 222,705 | 407,864 |
| Investments | 763,216 | 908,965 |
| Property and Equipment, net | 745,126 | 748,963 |
| Other Assets | 1,810 | 1,810 |
| Total assets | <u>\$ 1,732,857</u> | <u>\$ 2,067,602</u> |
| LIABILITIES AND NET ASSETS | | |
| Current Liabilities | | |
| Accounts payable and accrued expenses | \$ 55,424 | \$ 68,209 |
| Accrued pension cost, current portion | 88,500 | 122,000 |
| Mortgage note payable | - | 82,381 |
| Total current liabilities | 143,924 | 272,590 |
| Accrued Pension Cost | 371,441 | 308,306 |
| Total liabilities | 515,365 | 580,896 |
| Commitments (Note 5) | | |
| Net Assets | | |
| Unrestricted | 1,217,492 | 1,486,706 |
| Total net assets | 1,217,492 | 1,486,706 |
| Total liabilities and net assets | <u>\$ 1,732,857</u> | <u>\$ 2,067,602</u> |

See Notes to Financial Statements

Breathe California of the Bay Area
Statements of Activities

| | Years ended June 30, | |
|--|----------------------|---------------------|
| | 2010 | 2009 |
| Support and Revenues | | |
| Contributions and donations: | | |
| Donations | \$ 84,054 | \$ 96,173 |
| Special events (net of costs of direct benefit to participants of \$44,750 and \$50,737 in 2010 and 2009, respectively) | 24,653 | 59,551 |
| Memorials and bequests | 2,422 | 40,691 |
| In-kind contributions | 270,030 | 224,636 |
| Other | 2,342 | 6,992 |
| | <u>383,501</u> | <u>428,043</u> |
| Programs and grants: | | |
| Government grants | 352,416 | 435,259 |
| Program service fees | 23,854 | 71,538 |
| | <u>376,270</u> | <u>506,797</u> |
| Total support, revenues and grants | <u>759,771</u> | <u>934,840</u> |
| Expenses | | |
| Program services: | | |
| Environmental health | 273,618 | 339,255 |
| Tobacco control | 184,799 | 219,887 |
| Asthma and other lung disease | 312,219 | 245,075 |
| Community outreach | 186,760 | 257,875 |
| | <u>957,396</u> | <u>1,062,092</u> |
| Supporting services: | | |
| Fund raising | 68,400 | 88,073 |
| Administrative and general | 19,422 | 14,481 |
| Total expenses | <u>1,045,218</u> | <u>1,164,646</u> |
| Change in net assets from operations | (285,447) | (229,806) |
| Non-Operating Activities: | | |
| Interest and dividends | 35,269 | 45,539 |
| Realized and unrealized gain (loss) on investments, net | 58,796 | (212,673) |
| Pension-related changes other than net periodic pension cost | (77,832) | (228,234) |
| Change in Net Assets | (269,214) | (625,174) |
| Net Assets, beginning of year | <u>1,486,706</u> | <u>2,111,880</u> |
| Net Assets, end of year | <u>\$ 1,217,492</u> | <u>\$ 1,486,706</u> |

See Notes to Financial Statements

Breathe California of the Bay Area
Statement of Functional Expenses
Year Ended June 30, 2010

| | Program Services | | | | Support Services | | Total |
|---|----------------------|-----------------|-------------------------------|--------------------|------------------|----------------------------|--------------|
| | Environmental Health | Tobacco Control | Asthma and Other Lung Disease | Community Outreach | Fund Raising | Administrative and General | |
| Direct Expenses: | | | | | | | |
| Salaries | \$ 149,561 | \$ 111,211 | \$ 180,857 | \$ 125,402 | \$ 28,874 | \$ 12,939 | \$ 608,844 |
| Employee benefits and payroll taxes | 39,228 | 34,194 | 40,117 | 27,075 | 10,642 | 3,454 | 154,710 |
| Professional fees | 25,195 | 7,988 | 8,939 | 9,516 | 11,599 | 526 | 63,763 |
| Building occupancy | 4,365 | 3,801 | 4,439 | 3,013 | 1,071 | 357 | 17,046 |
| Insurance | 3,118 | 2,715 | 3,171 | 2,152 | 825 | 275 | 12,256 |
| Telephone | 4,700 | 1,572 | 2,419 | 1,182 | 1 | - | 9,874 |
| Supplies | 11,474 | 1,991 | 6,242 | 1,688 | 450 | 149 | 21,994 |
| Office equipment | 12,763 | 11,112 | 13,006 | 8,809 | 3,090 | 1,032 | 49,812 |
| Printing and publishing | 2,366 | 1,389 | 3,915 | 1,082 | 7,463 | 11 | 16,226 |
| Postage and shipping | 2,049 | 1,004 | 1,507 | 791 | 1,520 | 26 | 6,897 |
| Dues and subscriptions | 1,719 | 188 | 1,529 | 149 | 931 | 19 | 4,535 |
| Media expenses | 5,455 | 1,046 | 1,322 | 830 | 5 | 2 | 8,660 |
| Awards and grants | - | - | 35,000 | - | - | - | 35,000 |
| Meetings and travel | 5,131 | 934 | 3,153 | 589 | 230 | 66 | 10,103 |
| Support of other organizations and projects | 207 | 180 | 210 | 143 | 37 | 12 | 789 |
| Depreciation and amortization | 6,045 | 5,263 | 6,147 | 4,172 | 1,598 | 533 | 23,758 |
| Total direct expenses | 273,376 | 184,588 | 311,973 | 186,593 | 68,336 | 19,401 | 1,044,267 |
| Payments to American Lung Association | 242 | 211 | 246 | 167 | 64 | 21 | 951 |
| Total expenses | \$ 273,618 | \$ 184,799 | \$ 312,219 | \$ 186,760 | \$ 68,400 | \$ 19,422 | \$ 1,045,218 |
| Percentage of expenses | 26% | 18% | 30% | 18% | 7% | 2% | 100% |

See Notes to Financial Statements

Breathe California of the Bay Area
Statement of Functional Expenses
Year Ended June 30, 2009

| | Program Services | | | | Support Services | | Total |
|---|----------------------|-------------------|-------------------------------|--------------------|------------------|----------------------------|---------------------|
| | Environmental Health | Tobacco Control | Asthma and Other Lung Disease | Community Outreach | Fund Raising | Administrative and General | |
| Direct Expenses: | | | | | | | |
| Salaries | \$ 208,557 | \$ 141,242 | \$ 135,227 | \$ 156,465 | \$ 48,873 | \$ 8,767 | \$ 699,131 |
| Employee benefits and payroll taxes | 36,880 | 28,241 | 21,915 | 32,287 | 9,364 | 2,043 | 130,730 |
| Professional fees | 24,766 | 10,826 | 6,839 | 22,401 | 14,130 | 513 | 79,475 |
| Building occupancy | 6,140 | 4,870 | 3,499 | 4,868 | 1,238 | 270 | 20,885 |
| Insurance | 3,193 | 2,479 | 1,921 | 2,672 | 823 | 180 | 11,268 |
| Telephone | 3,991 | 2,815 | 1,993 | 2,115 | 126 | 28 | 11,068 |
| Supplies | 4,855 | 1,927 | 4,231 | 1,314 | 253 | 51 | 12,631 |
| Office equipment | 15,249 | 11,841 | 9,879 | 12,760 | 3,708 | 809 | 54,246 |
| Printing and publishing | 3,794 | 1,975 | 6,367 | 4,531 | 3,784 | 6 | 20,457 |
| Postage and shipping | 2,928 | 2,044 | 1,770 | 3,139 | 896 | 24 | 10,801 |
| Dues and subscriptions | 5,023 | 512 | 532 | 699 | 971 | 249 | 7,986 |
| Media expenses | 4,904 | 239 | 127 | 2,526 | 31 | 7 | 7,834 |
| Awards and grants | - | - | 40,000 | - | - | - | 40,000 |
| Meetings and travel | 7,271 | 1,786 | 3,733 | 2,301 | 304 | 349 | 15,744 |
| Support of other organizations and projects | 145 | 113 | 87 | 121 | 32 | 7 | 505 |
| Depreciation and amortization | 8,941 | 6,943 | 5,380 | 7,484 | 2,305 | 503 | 31,556 |
| Total direct expenses | 336,637 | 217,853 | 243,500 | 255,683 | 86,838 | 13,806 | 1,154,317 |
| Payments to American Lung Association | 2,254 | 1,751 | 1,356 | 1,887 | 773 | 581 | 8,602 |
| Payments to American Lung Association of California | 364 | 283 | 219 | 305 | 462 | 94 | 1,727 |
| | 2,618 | 2,034 | 1,575 | 2,192 | 1,235 | 675 | 10,329 |
| Total expenses | \$ 339,255 | \$ 219,887 | \$ 245,075 | \$ 257,875 | \$ 88,073 | \$ 14,481 | \$ 1,164,646 |
| Percentage of expenses | 29% | 19% | 21% | 22% | 8% | 1% | 100% |

See Notes to Financial Statements

Breathe California of the Bay Area
Statements of Cash Flows

| | Years ended June 30, | |
|---|-----------------------------|-----------------------------|
| | 2010 | 2009 |
| | <u> </u> | <u> </u> |
| Cash Flows from Operating Activities | | |
| Change in net assets | \$ (269,214) | \$ (625,174) |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | |
| Depreciation and amortization | 23,758 | 31,556 |
| Realized and unrealized (gain) loss on investments, net | (58,796) | 212,673 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 62,598 | (37,326) |
| Bequest receivable | - | 19,720 |
| Inventory | (8,560) | 4,198 |
| Prepaid expenses | 1,123 | (803) |
| Accounts payable, accrued expenses and accrued pension cost | 16,850 | 282,236 |
| | <u> </u> | <u> </u> |
| Net cash used in operating activities | (232,241) | (112,920) |
| Cash Flows from Investing Activities | | |
| Proceeds from maturities and sales of investments | 537,705 | 1,993,532 |
| Purchase of investments | (320,553) | (1,753,286) |
| Purchase of property and equipment | (19,921) | (12,885) |
| Reinvested interest and dividends | (12,607) | (45,539) |
| | <u> </u> | <u> </u> |
| Net cash provided by investing activities | 184,624 | 181,822 |
| Cash Flows from Financing Activities | | |
| Repayment of mortgage note payable | (82,381) | (28,160) |
| | <u> </u> | <u> </u> |
| Net cash used in financing activities | (82,381) | (28,160) |
| | <u> </u> | <u> </u> |
| Net increase (decrease) in cash and cash equivalents | (129,998) | 40,742 |
| Cash and Cash Equivalents, beginning of year | 177,361 | 136,619 |
| | <u> </u> | <u> </u> |
| Cash and Cash Equivalents, end of year | \$ 47,363 | \$ 177,361 |
| | <u> </u> | <u> </u> |
| | | |
| Supplemental Disclosure of Cash Flow Information | | |
| Cash paid during the year for interest | \$ 3,828 | \$ 6,875 |
| | <u> </u> | <u> </u> |

See Notes to Financial Statements

Breathe California of the Bay Area

Notes to Financial Statements

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, 2010 and 2009.

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.

Breathe California of the Bay Area

Notes to Financial Statements

2. Significant Accounting Policies (continued)

Government Grant Revenue:

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

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 2010 were valued at \$199,000 (\$180,000 in 2009) and consisted entirely of volunteer services. Donated supplies are reported at fair value at the date the contribution is received and in 2010 were valued at \$71,000 (\$44,600 in 2009).

The Organization also receives a significant amount of donated time from attorneys that helps to further its mission, but does not meet the criteria for recognition as donated services.

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, and the reported amounts of revenues and expenses in the financial statements and accompanying notes. Actual results could differ from those estimates.

Concentration of Credit Risk:

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

The Organization primarily maintains its cash and cash equivalents and investments with a credit union, a major financial institution and a major U.S. brokerage firm. At June 30, 2010, deposits with the credit union and financial institution 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

2. Significant Accounting Policies (continued)

Concentration of Credit Risk: (continued)

The Organization provides a reserve for uncollectible accounts receivable, as needed, based on historical experience and management's evaluation of the collectability of outstanding accounts receivable. Management believes all accounts receivable at June 30, 2010 and 2009 are collectable and no allowance for doubtful accounts is deemed necessary.

The Company had one major grantor in 2010 and 2009. 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 18% of support, revenues and grants for the year ended June 30, 2010 (15% for the year ended June 30, 2009). The amount due from the major donor at June 30, 2010 was \$52,000 (\$78,000 at June 30, 2009).

Cash and Cash Equivalents:

For purposes of the cash flows, the Organization considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Inventory:

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

Investments:

The Organization's marketable securities consist of fixed income and equity securities and are presented at fair value based on prices quoted on established securities exchanges. Investment income, gains and losses are included in non-operating activities on the statements of 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.

Breathe California of the Bay Area

Notes to Financial Statements

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 statements 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 January 2010, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2010-06, *Improving Disclosures About Fair Value Measurements*, which requires reporting entities to make new disclosures about recurring or nonrecurring fair value measurements (Note 3) including significant transfers into and out of Level 1 and Level 2 fair value measurements and information on purchases, sales, issuances, and settlements on a gross basis in the reconciliation of Level 3 fair value measurements. ASU 2010-06 is effective for annual reporting periods beginning after December 15, 2009, except for Level 3 reconciliation disclosures, which are effective for annual periods beginning after December 15, 2010. The Organization does not expect the adoption of ASU 2010-06 to have a material impact 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

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, 2010 and 2009, 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 consists of the following for the year ended June 30, 2010:

| | Interest and Dividends | Net Realized/Unrealized Gain | Total |
|---------------------------|---------------------------|------------------------------------|------------------|
| Fixed income securities | \$ 34,631 | \$ 4,950 | \$ 39,581 |
| Equity securities | - | 47,190 | 47,190 |
| Cash and cash equivalents | <u>638</u> | <u>6,656</u> | <u>7,294</u> |
| | <u>\$ 35,269</u> | <u>\$ 58,796</u> | <u>\$ 94,065</u> |

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

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

Breathe California of the Bay Area

Notes to Financial Statements

4. Property and Equipment

Property and equipment consist of the following at June 30:

| | <u>2010</u> | <u>2009</u> |
|--|-------------------|-------------------|
| Land | \$ 366,000 | \$ 366,000 |
| Building | 406,668 | 406,668 |
| Office equipment | 131,045 | 129,977 |
| Leasehold improvements | 129,534 | 110,681 |
| Vehicles | <u>16,211</u> | <u>16,211</u> |
| | 1,049,458 | 1,029,537 |
| Less accumulated depreciation and amortization | <u>304,332</u> | <u>280,574</u> |
| | <u>\$ 745,126</u> | <u>\$ 748,963</u> |

5. 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 for the year ending June 30, 2011 are \$88,500. Contributions of \$125,150 were made for the year ended June 30, 2010 (none for the year ended June 30, 2009).

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, 2010 and 2009.

Breathe California of the Bay Area
Notes to Financial Statements

5. Pension Plan (continued)

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

| | <u>2010</u> | <u>2009</u> |
|---|---------------------|---------------------|
| Obligations and funded status | | |
| Projected benefit obligation | \$ (1,289,054) | \$ (1,083,468) |
| Plan assets at fair value | <u>829,113</u> | <u>653,162</u> |
| Funded status (accrued pension cost) | <u>\$ (459,941)</u> | <u>\$ (430,306)</u> |
| Accumulated benefit obligation | <u>\$ 1,154,400</u> | <u>\$ 1,003,467</u> |
| Plan expenses paid | <u>\$ 7,437</u> | <u>\$ 7,243</u> |
| Components of net periodic benefit cost: | | |
| Service cost | \$ 50,420 | \$ 42,262 |
| Interest cost | 66,679 | 63,190 |
| Expected return on plan assets | (52,828) | (65,380) |
| Recognized net loss | <u>12,682</u> | <u>-</u> |
| Net periodic benefit cost | <u>\$ 76,953</u> | <u>\$ 40,072</u> |
| Cumulative other changes in plan assets and obligations recognized as change in unrestricted net assets: | | |
| Balance, beginning of year | \$ (339,815) | \$ (111,581) |
| Current year unrecognized loss | <u>(77,832)</u> | <u>(228,234)</u> |
| Balance, end of year | <u>\$ (417,647)</u> | <u>\$ (339,815)</u> |
| Weighted average assumptions used to determine benefit obligations at June 30: | | |
| Discount rate | 5.3% | 6.2% |
| Rate of compensation increase | 3.0% | 3.0% |
| Net periodic benefit cost for the year ended June 30: | | |
| Discount rate | 6.2% | 6.8% |
| Rate of compensation increase | 3.0% | 3.0% |
| Expected return on plan assets | 7.0% | 7.5% |

Breathe California of the Bay Area

Notes to Financial Statements

5. 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 for the year ended June 30, 2010 were \$23,000 (\$30,000 for the year ended June 30, 2009). 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: | |
|-----------------------|-------------------|
| 2011 | \$ 41,000 |
| 2012 | 46,000 |
| 2013 | 57,000 |
| 2014 | 69,000 |
| 2015 | 99,000 |
| 2016 - 2020 | <u>546,000</u> |
| | <u>\$ 858,000</u> |

Plan asset allocation as of June 30, 2010 is 49% equity securities and 51% fixed income investments (50% equity securities and 50% fixed income investments at June 30, 2009).

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 partnership, and venture-capital investments. In addition, short selling and margin transactions are prohibited. Investments in companies that derive their revenue from the manufacture and sale of tobacco products are strictly prohibited under the Organization's investment policy.

Breathe California of the Bay Area
Notes to Financial Statements

6. Allocation of Joint Costs

Joint costs are costs that relate to fundraising activities as well as program services. The Organization shares the cost of certain informational and fundraising activities with other organizations, including other chapters of Breathe California. The following joint costs were incurred for informational material and activities that included fundraising appeals for the years ended June 30:

| | <u>2010</u> | <u>2009</u> |
|-------------------------------|------------------|-----------------|
| Program services: | | |
| Environmental health | \$ 1,052 | \$ 997 |
| Tobacco control | 729 | 775 |
| Asthma and other lung disease | 1,188 | 600 |
| Community outreach | <u>719</u> | <u>835</u> |
| | <u>3,688</u> | <u>3,207</u> |
| Support services: | | |
| Fund raising | 8,440 | 6,538 |
| Administrative and general | <u>77</u> | <u>20</u> |
| | <u>8,517</u> | <u>6,558</u> |
| | <u>\$ 12,205</u> | <u>\$ 9,765</u> |

7. Termination of Affiliate Agreements

Effective February 13, 2006, the Organization terminated its affiliate agreements and separated from ALA and ALAC. Although the Organization is legally separated from both ALA and ALAC, certain revenues for a certain period of time will continue to be shared with ALA and ALAC. Payment of shared revenues amounted to \$1,000 for the year ended June 30, 2010 (\$10,300 for the year ended June 30, 2009).

8. Subsequent Events

Subsequent events have been evaluated through the date of the independent auditor's report, which is the date the financial statements were approved by the Organization and available to be issued.