

BREATHE CALIFORNIA OF THE BAY AREA

CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements:	
Statements of Financial Position	2
Statements of Activities	3
Statements of Functional Expenses	4 -5
Statements of Cash Flows	6
Notes to Financial Statements	7 - 15

**Financial Statements
For the Years Ended
June 30, 2012
and 2011**

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of financial position of Breathe California of the Bay Area (a non-profit organization) as of June 30, 2012, 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 financial statements of Breathe California of the Bay Area for the year ended June 30, 2011, were audited by other auditors whose report thereon, dated November 15, 2011, expressed an unqualified opinion.

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, 2012, 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.

Delucchi, Hawn & Co., LLP

San Jose, California
November 15, 2012

BREATHE CALIFORNIA OF THE BAY AREA
STATEMENTS OF FINANCIAL POSITION

Assets

	June 30,	
	2012	2011
Assets:		
Cash	\$ -	\$ 21,248
Accounts receivable	157,830	147,548
Grants receivable	22,256	-
Inventory	114,612	158,212
Prepaid expenses	2,172	11,173
Investments	644,792	772,479
Property and equipment, net	709,970	725,047
Deposits	1,810	1,810
Total assets	\$ 1,653,442	\$ 1,837,517

Liabilities and Net Assets

Liabilities:		
Cash overdraft	\$ 3,938	\$ -
Accounts payable	68,461	66,308
Accrued expenses	45,095	43,529
Deferred revenue	2,500	13,500
Accrued pension cost	549,193	315,172
Total liabilities	669,187	438,509
Net assets:		
Unrestricted	958,264	1,399,008
Temporarily restricted	25,991	-
	984,255	1,399,008
	\$ 1,653,442	\$ 1,837,517

See Notes to Financial Statements

BREATHE CALIFORNIA OF THE BAY AREA
STATEMENTS OF ACTIVITIES

For the Years Ended

	June 30, 2012			June 30, 2011		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues, gains and other support						
Contributions	\$ 190,862	\$ 59,512	\$ 250,374	\$ 220,665	\$ -	\$ 220,665
Government contracts	670,454	-	670,454	528,530	-	528,530
In-kind contributions	217,424	-	217,424	317,729	-	317,729
Program service fees	59,893	-	59,893	41,847	-	41,847
Special events revenue	186,642	-	186,642	81,128	-	81,128
Special events expenses	(174,896)	-	(174,896)	(42,283)	-	(42,283)
Realized/unrealized gains (losses) on investments	(25,925)	-	(25,925)	99,985	-	99,985
Interest and dividends	18,596	-	18,596	26,294	-	26,294
Other income	6,490	-	6,490	461	-	461
Net assets released from restrictions	33,521	(33,521)	-	-	-	-
Total revenues, gains and other support	1,183,061	25,991	1,209,052	1,274,356	-	1,274,356
Expenses						
Program services						
Environmental health	483,307	-	483,307	402,443	-	402,443
Tobacco control	436,704	-	436,704	354,755	-	354,755
Asthma and other lung disease	222,931	-	222,931	205,952	-	205,952
Community outreach	136,653	-	136,653	171,964	-	171,964
	1,279,595	-	1,279,595	1,135,114	-	1,135,114
Supporting services						
Fundraising	51,391	-	51,391	62,207	-	62,207
Administrative and general	30,146	-	30,146	20,075	-	20,075
Total expenses	1,361,132	-	1,361,132	1,217,396	-	1,217,396
Change in net assets from operations	(178,071)	25,991	(152,080)	56,960	-	56,960
Other revenue (expense)						
Pension related changes other than net periodic benefit cost	(262,673)	-	(262,673)	124,556	-	124,556
Change in net assets	(440,744)	25,991	(414,753)	181,516	-	181,516
Net assets, beginning of year	1,399,008	-	1,399,008	1,217,492	-	1,217,492
Net assets, end of year	\$ 958,264	\$ 25,991	\$ 984,255	\$ 1,399,008	\$ -	\$ 1,399,008

See Notes to Financial Statements

BREATHE CALIFORNIA OF THE BAY AREA
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2012

	Program Services				Supporting Services		Total
	Environmental Health	Tobacco Control	Asthma and Other Lung Disease	Community Outreach	Fundraising	Administrative and General	
Functional expenses:							
Salaries	\$ 270,098	\$ 130,587	\$ 117,077	\$ 92,823	\$ 25,999	\$ 19,452	\$ 656,036
Employee benefits	48,082	28,731	27,406	16,790	6,602	4,715	132,326
Payroll taxes	16,097	9,654	9,022	5,679	2,232	1,593	44,277
Professional fees	52,332	102,949	5,787	3,517	8,750	462	173,797
Building occupancy	3,324	2,988	1,833	1,121	423	303	9,992
Insurance	6,294	5,898	3,601	2,221	873	623	19,510
Telephone	2,095	1,709	813	376	28	2	5,023
Office supplies and expenses	4,662	1,124	4,007	661	664	127	11,245
Program supplies	34,343	142,469	16,456	8,581	2,829	2,019	206,697
Printing and publishing	2,594	1,102	1,270	534	309	48	5,857
Postage and shipping	2,729	1,153	1,502	647	927	47	7,005
Dues and subscriptions	4,115	399	1,328	199	749	37	6,827
Media expenses	19,979	2,191	1,076	468	15	11	23,740
Awards and grants	209	66	25,061	39	-	-	25,375
Meeting and travel	9,991	1,868	3,126	752	109	77	15,923
Depreciation and amortization	6,363	3,816	3,566	2,245	882	630	17,502
Total expenses	\$ 483,307	\$ 436,704	\$ 222,931	\$ 136,653	\$ 51,391	\$ 30,146	\$ 1,361,132
Percentage of expenses	36%	32%	16%	10%	4%	2%	100%

See Notes to Financial Statements

BREATHE CALIFORNIA OF THE BAY AREA
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2011

	Program Services				Supporting Services		Total
	Environmental Health	Tobacco Control	Asthma and Other Lung Disease	Community Outreach	Fundraising	Administrative and General	
Functional expenses:							
Salaries	\$ 251,881	\$ 145,054	\$ 115,146	\$ 126,075	\$ 28,524	\$ 12,657	\$ 679,337
Employee benefits and payroll taxes	59,310	49,025	30,762	25,995	12,431	4,779	182,302
Professional fees	40,512	44,578	5,704	4,347	8,720	498	104,359
Building occupancy	2,889	3,078	1,490	1,272	609	234	9,572
Insurance	3,630	4,163	1,872	1,599	766	294	12,324
Telephone	1,860	2,454	747	407	2	1	5,471
Office supplies and expenses	15,066	12,442	8,464	6,239	2,486	955	45,652
Program supplies	1,698	80,124	4,028	146	-	-	85,996
Printing and publishing	3,056	1,963	3,320	710	5,440	4	14,493
Postage and shipping	2,289	1,343	1,338	664	762	44	6,440
Dues and subscriptions	2,149	1,671	898	580	1,003	59	6,360
Media expenses	6,586	2,422	1,783	804	17	7	11,619
Awards and grants	134	68	25,092	50	-	-	25,344
Meeting and travel	4,861	953	1,944	204	71	15	8,048
Depreciation and amortization	6,522	5,417	3,364	2,872	1,376	528	20,079
Total expenses	\$ 402,443	\$ 354,755	\$ 205,952	\$ 171,964	\$ 62,207	\$ 20,075	\$ 1,217,396
Percentage of expenses	33%	29%	17%	14%	5%	2%	100%

See Notes to Financial Statements

BREATHE CALIFORNIA OF THE BAY AREA
STATEMENTS OF CASH FLOWS

	For the Years Ended June 30,	
	2012	2011
Cash flows from operating activities:		
Changes in net assets	\$ (414,753)	\$ 181,516
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation	17,502	20,079
Realized/unrealized gains (losses) on investments	25,925	(99,985)
Changes in assets and liabilities:		
Accounts receivable	(10,282)	(65,955)
Grants receivable	(22,256)	-
Inventory	43,600	(69,744)
Prepaid expenses	9,001	(5,892)
Accounts payable	2,153	24,093
Accrued expenses	1,566	30,320
Deferred revenue	(11,000)	13,500
Accrued pension cost	234,021	(144,769)
	(124,523)	(116,837)
Net cash used in operating activities		
Cash flows from investing activities:		
Purchase of property and equipment	(2,425)	-
Purchase of investments	(796,303)	(374,694)
Redemption of investments	898,065	465,416
	99,337	90,722
Net cash provided by investing activities		
Decrease in cash and cash equivalents	(25,186)	(26,115)
Beginning cash and cash equivalents balances	21,248	47,363
Ending cash (overdraft) balances	\$ (3,938)	\$ 21,248

See Notes to Financial Statements

BREATHE CALIFORNIA OF THE BAY AREA
NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2012 and 2011

Note A - Summary of Significant Accounting Policies

Nature of Activities

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).

Basis of Presentation

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

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

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

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

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

Revenue Recognition

The Organization recognized 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
For the Years Ended June 30, 2012 and 2011

Note A - Summary of Significant Accounting Policies (Continued)

Revenue Recognition (Continued)

Amounts received for services or events not yet provided is classified as deferred support and revenue, and is recognized in the period in which the service is provided or the event takes place.

Government Grant Revenue

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

In-kind Support

Donated services are recognized as contributions at their fair value (Level 2) if the services (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The amounts reflected in the accompanying financial statements as in-kind services are offset by a like amount of expense. Donated services in 2012 were valued at approximately \$165,000 and related to volunteer professional services (\$276,000 in 2011). Donated supplies in 2012 were reported at fair value (Level 2) at the date the contributions were received and were valued at approximately \$53,000 (\$41,000 in 2011).

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

Concentration of Credit Risk

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

The Organization primarily maintains its cash and cash equivalents and investments with a credit union, a major financial institution and major domestic brokerage firm. At June 30, 2012, deposits with the credit union and financial institution were fully insured by the federal government and investments and cash deposits with the brokerage firm were insured by the Securities Investor Protection Corporation (SIPC) for up to \$500,000, including \$100,000 for cash deposits.

The Organization had two major grantors in 2012 and 2011. Major grantors are defined as those who represent greater than ten percent of the Organization's total annual support, revenues, and grants. The two major grantors accounted for 45% of support, revenues and grants for the year ended June 30, 2012 (28% in 2011). Three grantors composed of 73% of accounts/grants receivable as of June 30, 2012 (66% from the two grantors at June 30, 2011).

BREATHE CALIFORNIA OF THE BAY AREA
NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2012 and 2011

Note A - Summary of Significant Accounting Policies (Continued)

Use of Estimates

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

Cash and Cash Equivalents

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

Accounts Receivable

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

Inventory

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

Investments

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

Fair Value Measurements

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

BREATHE CALIFORNIA OF THE BAY AREA

NOTES TO FINANCIAL STATEMENTS

For the Years Ended June 30, 2012 and 2011

Note A - Summary of Significant Accounting Policies (Continued)

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.

Functional Allocation of Expenses

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

Advertising

The Organization expenses advertising costs as incurred. For the year ended June 2012, advertising expense was \$22,406 (\$11,619 in 2011).

Income Taxes

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

Although the Organization is recognized as tax exempt, it is still liable for tax on its unrelated business taxable income (UBTI). The Organization does not believe it has UBTI that should have been reported for tax purposes.

The Organization applies the provision set forth in Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 740 to account for uncertainty in income taxes. The Organization assessed all income tax positions taken where the statute of limitation remained open. The Organization believes that its tax filing positions will be sustained upon tax examinations; therefore, no liability for unrecognized income tax benefits has been recorded at June 30, 2012.

The Organization files income tax returns in the U.S. federal jurisdiction and the State of California. The Organization's federal income tax returns for tax years 2008 and beyond remain subject to examination by the Internal Revenue Service. The Organization's California income tax returns of the tax years 2007 and beyond remain subject to examination by the Franchise Tax Board

BREATHE CALIFORNIA OF THE BAY AREA
NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2012 and 2011

Note A - Summary of Significant Accounting Policies (Continued)

Subsequent Events

Management has evaluated subsequent events through November 15, 2012, the date the financial statements were available to be issued.

Note B - Investments

The fair market value of investments based on quoted market prices (Level 1) as of June 30, 2012 and 2011 consisted of the following:

	<u>2012</u>	<u>2011</u>
Equity securities	\$ 180,857	\$ 495,258
Mutual funds-fixed income	237,122	135,779
Mutual funds-equity	226,813	-
Government securities	<u>-</u>	<u>141,442</u>
Total investments	<u>\$ 644,792</u>	<u>\$ 772,479</u>

Investment income (losses) for the year ended June 30, 2012 and 2011 consisted of the following:

	<u>2012</u>	<u>2011</u>
Interest and dividend income	\$ 18,596	\$ 26,294
Realized gains	36,345	35,789
Unrealized gains (losses)	<u>(62,270)</u>	<u>64,196</u>
Net investment income (losses)	<u>\$ (7,329)</u>	<u>\$ 126,279</u>

BREATHE CALIFORNIA OF THE BAY AREA
NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2012 and 2011

Note C - Property and Equipment

At June 30, 2012 and 2011, property and equipment consisted of the following:

	2012	2011
Land	\$ 366,000	\$ 366,000
Building	406,668	406,668
Office equipment	133,102	131,045
Leasehold improvements	129,534	129,534
Vehicles	16,211	16,211
	1,051,515	1,049,458
Less accumulated depreciation	341,545	324,411
	\$ 709,970	\$ 725,047

Note D - Temporarily Restricted Net Assets

At June 30, 2012, temporarily restricted net assets were \$25,911. Temporarily restricted net assets represent the total amount of funds required to complete the Organization's programs.

Note E - Pension Plan

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

The Organization's expected contributions for the year ending June 30, 2013 are \$88,000. Contributions in 2012 were \$88,750, of which \$24,750 is included in accounts payable at June 30, 2012. (\$83,000 in 2011, of which \$21,500 is included in accounts payable at June 30, 2011)

Plan assets primarily consist of collective trust funds offered by First State Trust Company, which are classified as Level 2 investments under the fair value hierarchy (Note A). The measurement dates used to determine the pension measurements for the majority of the plan assets and benefit obligations were June 30, 2012 and 2011.

For the year ended June 30, 2012, the Organization recorded pension expense, other than net periodic benefit cost of \$262,673, primarily due to changes in the discount rate used in determining the projected benefit obligation (benefit of \$124,556 in 2011).

BREATHE CALIFORNIA OF THE BAY AREA
NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2012 and 2011

Note E - Pension Plan (Continued)

The following tables set forth further information regarding the plan as of and for the year ended June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Obligations and funded status		
Projected benefit obligation	\$ (1,672,805)	\$ (1,347,335)
Plan assets at fair value	<u>1,123,612</u>	<u>1,032,163</u>
 Funded status (accrued pension cost)	 <u>\$ (549,193)</u>	 <u>\$ (315,172)</u>
 Accumulated benefit obligation	 <u>\$ 1,580,963</u>	 <u>\$ 1,247,405</u>
 Plan expense paid	 <u>\$ 6,582</u>	 <u>\$ 9,203</u>
 Components of net periodic benefit cost:		
Service cost	\$ 48,562	\$ 49,747
Interest cost	71,467	64,059
Expected return on plan assets	(74,526)	(60,340)
Recognized net loss	<u>14,595</u>	<u>14,821</u>
 Net periodic benefit cost	 <u>\$ 60,098</u>	 <u>\$ 68,287</u>
 Cumulative other changes in plan assets and obligations recognized as change in unrestricted net assets:		
Unrecognized net loss, beginning of year	\$ (293,091)	\$ (417,647)
Current year unrecognized return	<u>(262,673)</u>	<u>124,556</u>
 Unrecognized net loss, end of year	 <u>\$ (555,764)</u>	 <u>\$ (293,091)</u>

The following assumptions were used to determine the plan status as of and for the year ended June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Weighted average assumptions used to determine benefit obligation:		
Discount rate	4.0%	5.4%
Rate of compensation increase	3.0%	3.0%
 Weighted average assumptions used to determine net periodic benefit cost:		
Discount rate	5.4%	5.3%
Rate of compensation increase	3.0%	3.0%
Expected long-term return on plan assets	7.0%	7.0%

BREATHE CALIFORNIA OF THE BAY AREA
NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2012 and 2011

Note E - 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 2012 were \$30,949 (\$23,000 in 2011). Benefits expected to be paid in each of next five fiscal years and following five years in aggregate are as follows:

Year ending June 30:	
2013	\$ 60,789
2014	71,618
2015	100,081
2016	107,647
2017	111,736
2017 - 2022	<u>534,141</u>
	<u>\$ 986,012</u>

Plan asset allocation as of June 30, 2012 is 51% equity securities and 49% 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 the 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 transaction are prohibited. Investments in companies that derive their revenue from the manufacture and sale of tobacco products are strictly prohibited under Organization's investment policy.

BREATHE CALIFORNIA OF THE BAY AREA
NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2012 and 2011

Note F - Allocation of Joint Costs

Joint costs are costs that relate to fundraising activities as well as program services. The following joint costs were incurred for informational material and activities that included fundraising appeals for the year ended June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Program services:		
Environmental health	\$ 411	\$ 707
Tobacco control	358	587
Asthma and other lung disease	191	365
Community outreach	<u>118</u>	<u>311</u>
	<u>1,078</u>	<u>1,970</u>
Support services:		
Fundraising	1,182	5,437
Administrative and general	<u>20</u>	<u>3</u>
	<u>1,202</u>	<u>5,440</u>
	<u>\$ 2,280</u>	<u>\$ 7,410</u>

Note G - 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, the Organization is restricted in various matters subject to consent judgments and certain revenues for a certain period of time continued to be shared with ALA and ALAC. No shared revenue was paid for the year ending June 30, 2012 and 2011. Management is not aware of any violation of the consent judgment as of June 30, 2012.