

LUNGevity FOUNDATION

YEARS ENDED JUNE 30, 2015 AND 2014

LUNGevity FOUNDATION

YEARS ENDED JUNE 30, 2015 AND 2014

CONTENTS

	Page
Independent auditor's report	1-2
Financial statements:	
Statement of financial position	3
Statement of activities	4
Statement of functional expenses	5
Statement of cash flows	6
Notes to financial statements	7-14

Independent Auditor's Report

Board of Directors
LUNGevity Foundation
Chicago, Illinois

We have audited the accompanying financial statements of LUNGevity Foundation (the Foundation), which comprise the statement of financial position as of June 30, 2015 and 2014 and the related statements of activities, functional expenses and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LUNGeivity Foundation as of June 30, 2015 and 2014 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Ostrow Reisin Berk & Abrams, Ltd.

September 14, 2015

LUNGevity FOUNDATION

STATEMENT OF FINANCIAL POSITION

June 30,	2015	2014
ASSETS		
Cash and cash equivalents	\$ 1,497,146	\$ 3,455,436
Prepaid expenses	207,925	206,010
Accounts and grants receivable	351,910	1,120,000
Pledges receivable	1,705,235	656,982
Security deposits	14,752	14,752
Property and equipment, net	38,807	31,761
Total assets	\$ 3,815,775	\$ 5,484,941
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 78,573	\$ 24,749
Accrued payroll and vacation liabilities	56,141	32,888
Grants payable	600,000	2,353,689
Deferred revenue	9,045	10,473
Total liabilities	743,759	2,421,799
Net assets:		
Unrestricted	1,366,781	2,406,160
Temporarily restricted	1,705,235	656,982
Total net assets	3,072,016	3,063,142
Total liabilities and net assets	\$ 3,815,775	\$ 5,484,941

See notes to financial statements.

LUNgevity FOUNDATION

STATEMENT OF ACTIVITIES

Years ended June 30,	2015			2014		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues:						
Contributions and grants	\$ 2,482,319	\$ 1,200,220	\$ 3,682,539	\$ 2,260,921	\$ 372,618	\$ 2,633,539
Special events and other fundraisers:						
Gross revenue	3,864,666		3,864,666	3,923,119		3,923,119
Expenses	(1,109,454)		(1,109,454)	(1,094,332)		(1,094,332)
Interest and dividends	681		681	1,043		1,043
Net realized gain (loss) on investments	3,327		3,327	(6,381)		(6,381)
Loss on disposal of assets				(2,787)		(2,787)
Donated goods and services	294,773		294,773	259,343		259,343
Net assets released from restrictions:						
Satisfaction of purpose or time restrictions	151,967	(151,967)		387,034	(387,034)	
Total revenues	5,688,279	1,048,253	6,736,532	5,727,960	(14,416)	5,713,544
Expenses:						
Program services	5,044,038		5,044,038	4,207,916		4,207,916
Management and general	712,805		712,805	681,192		681,192
Fundraising	970,815		970,815	772,390		772,390
Total expenses	6,727,658		6,727,658	5,661,498		5,661,498
Change in net assets	(1,039,379)	1,048,253	8,874	66,462	(14,416)	52,046
Net assets:						
Beginning of year	2,406,160	656,982	3,063,142	2,339,698	671,398	3,011,096
End of year	\$ 1,366,781	\$ 1,705,235	\$ 3,072,016	\$ 2,406,160	\$ 656,982	\$ 3,063,142

See notes to financial statements.

LUNgevity FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

Years ended June 30,	2015					2014				
	Program services	Management and general	Fundraising	Direct benefit to donors	Total	Program services	Management and general	Fundraising	Direct benefit to donors	Total
Grants	\$ 1,563,060				\$ 1,563,060	\$ 2,176,916				\$ 2,176,916
Advertising and marketing	198,013	\$ 5,449	\$ 60,361		263,823	166,592	\$ 7,117	\$ 46,635		220,344
Credit card and administrative fees	34,496	10,706	14,274		59,476	24,216	11,211	9,616		45,043
Donated goods and services	74,800	36,595		\$ 183,378	294,773		22,251		\$ 237,092	259,343
Dues and subscriptions	1,992	482	1,510		3,984	2,094	666	559		3,319
Employee training and conferences	2,076	118	985		3,179	2,589	108	2,411		5,108
Insurance	12,761	3,960	5,281		22,002	14,207	6,578	5,525		26,310
License and registration	11,001	2,113	4,320		17,434	4,491	13,563	1,497		19,551
Meals and entertainment	4,517	1,170	3,263		8,950	1,022	7,222	1,132		9,376
Meetings	351,847	5,243			357,090	129,174	2,678	1,095		132,947
Office supplies and equipment	24,146	5,935	10,247		40,328	16,096	5,356	6,671		28,123
Other	13,402	4,159	5,546		23,107	7,080	3,278	2,979		13,337
Other event expenses	13,930		6,154	325,668	345,752	24,388		8,322	302,145	334,855
Payroll taxes and employee benefits	329,455	109,818	109,818		549,091	147,349	126,931	120,700		394,980
Postage	28,789	1,422	20,951		51,162	25,406	2,235	33,808		61,449
Printing and design	152,566	2,131	63,869		218,566	66,959	3,394	82,926		153,279
Professional fees	490,520	25,270	33,694	351,113	900,597	235,098	20,597	5,352	242,820	503,867
Rent	88,527	27,474	36,632		152,633	58,807	27,226	22,869		108,902
Salaries	1,311,279	433,233	451,037		2,195,549	790,975	363,750	319,407		1,474,132
Support services	51,849				51,849	67,583				67,583
Telephone and internet	67,859	21,060	28,079		116,998	26,979	12,490	13,239		52,708
Travel	122,416	11,758	46,711	24,428	205,313	113,288	39,457	33,261		186,006
Utilities	3,485	1,081	1,442		6,008	3,348	1,550	1,643		6,541
Venue rentals and fees				224,867	224,867				312,275	312,275
Website content licensing and other software fees	84,361	1,489	63,789		149,639	98,103	1,148	50,738		149,989
Total expenses before depreciation and amortization	5,037,147	710,666	967,963	1,109,454	7,825,230	4,202,760	678,806	770,385	1,094,332	6,746,283
Depreciation and amortization	6,891	2,139	2,852		11,882	5,156	2,386	2,005		9,547
Total expenses	5,044,038	712,805	970,815	1,109,454	7,837,112	4,207,916	681,192	772,390	1,094,332	6,755,830
Less expenses included with revenues on the statement of activities				(1,109,454)	(1,109,454)				(1,094,332)	(1,094,332)
Total expenses included in the expense section of the statement of activities	\$ 5,044,038	\$ 712,805	\$ 970,815	\$ -	\$ 6,727,658	\$ 4,207,916	\$ 681,192	\$ 772,390	\$ -	\$ 5,661,498

See notes to financial statements.

LUNGevity FOUNDATION

STATEMENT OF CASH FLOWS

Years ended June 30,	2015	2014
Cash flows from operating activities:		
Change in net assets	\$ 8,874	\$ 52,046
Adjustments to reconcile change in net assets to cash provided by (used in) operating activities:		
Depreciation and amortization	11,882	9,547
Net realized (gain) loss on investments	(3,327)	6,381
Contribution of corporate stock	3,327	(6,381)
Loss on disposal of assets		2,787
(Increase) decrease in operating assets:		
Prepaid expenses	(1,915)	(4,279)
Accounts and grants receivable	768,090	(481,698)
Pledges receivable	(1,048,253)	14,416
Security deposits		(5,030)
Increase (decrease) in operating liabilities:		
Accounts payable	53,824	(6,911)
Accrued payroll and vacation liabilities	23,253	(58,814)
Grants payable	(1,753,689)	846,483
Deferred revenue	(1,428)	(8,757)
Cash provided by (used in) operating activities	(1,939,362)	359,790
Cash flows from investing activity:		
Purchase of property and equipment	(18,928)	(9,197)
Cash used in investing activity	(18,928)	(9,197)
Increase (decrease) in cash and cash equivalents	(1,958,290)	350,593
Cash and cash equivalents, beginning of year	3,455,436	3,104,843
Cash and cash equivalents, end of year	\$ 1,497,146	\$ 3,455,436

See notes to financial statements.

LUNGevity FOUNDATION

NOTES TO FINANCIAL STATEMENTS

1. Organization and purpose

LUNGevity Foundation (the Foundation) is an Illinois nonprofit entity incorporated on March 13, 2001, to provide funding for the most promising research into the early detection and successful treatment of lung cancer. The Foundation also supports one of the largest national grassroots lung cancer network, as well as one of the largest online support community for those affected by lung cancer, according to management. These activities are primarily funded by contributions and grants, special events and other fundraisers.

2. Summary of significant accounting policies

The significant accounting policies of the Foundation are summarized below:

Basis of accounting:

The Foundation's financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Basis of presentation:

The financial statement presentation follows Financial Accounting Standards Board (FASB) Accounting Standards Codification (the Codification) for *Financial Statements of Not-for-Profit Organizations*. Under the Codification, the Foundation is required to report information regarding its financial position and activities in three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Unrestricted net assets are available to finance the general operations of the Foundation. Temporarily restricted net assets represent those for which the use by the Foundation has been limited by donors to a special time period or purpose, see Note 5. Permanently restricted net assets have been restricted by donors to be maintained by the Foundation in perpetuity. The Foundation had no permanently restricted net assets at June 30, 2015 and 2014.

Unrestricted and restricted revenue and support:

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the same reporting period 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 expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

LUNgevity FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued)

Cash and cash equivalents:

The Foundation considers cash, money market funds held in investment accounts and sweep funds in a repurchase agreement that matures overnight or the next business day to be cash and cash equivalents.

Accounts and grants receivable:

Accounts and grants receivable include amounts due in less than one year. An allowance for doubtful accounts is considered unnecessary and is not provided.

Pledges receivable:

Pledges receivable included unconditional promises to give at June 30, 2015 and 2014. Pledges due in more than one year were discounted using a risk-adjusted rate of return to reflect the present value of the receivables.

June 30,	2015	2014
Receivable due in less than one year	\$ 517,089	\$ 274,390
Receivable due in one to five years	1,315,000	417,290
Total pledges receivable, gross	1,832,089	691,680
Less discount to net present value	(126,854)	(34,698)
Total pledges receivable	\$ 1,705,235	\$ 656,982

Pledges receivable due in more than one year were discounted at a 2.85% rate for those originating in 2015 and 2014. Pledges receivable originating prior to the year ended June 30, 2014 were discounted at a 2.25% rate. Amortization of the discount is included in contributions and grants revenue. An allowance for doubtful accounts is considered unnecessary and is not provided.

LUNgevity FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued)

Property and equipment and related depreciation and amortization:

Property and equipment are stated at cost or, if donated, at fair value at the date of donation. Depreciation and amortization of property and equipment is provided over the estimated life of the assets using the straight-line method. Additions over \$500 are capitalized while replacements, maintenance and repairs which do not improve or extend the lives of the respective assets are expensed currently.

Grants payable:

Unconditional grants payable are recorded when approved by the Board of Directors. Grants payable represent amounts due to medical investigators for pre-approved studies in the following year, see Note 8.

Deferred revenue:

Proceeds related to special events and other fundraisers received by June 30 that will not be earned until after June 30 were recognized as deferred revenue.

Advertising:

Advertising costs were expensed when incurred. Total advertising costs were \$131,836 and \$112,666 for the years ended June 30, 2015 and 2014, respectively.

Expense allocation:

The costs of providing various programs and other activities have been summarized on a functional basis on the statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Contributed services:

The Foundation receives donated services from unpaid volunteers who assist in its fundraising events and programs in the furtherance of its purposes. In addition, many individuals volunteer their time and perform a variety of tasks that assist the Foundation. With the exception of the services noted in the following paragraph, none of these amounts have been recognized in the statement of activities because the criteria for recognition have not been met.

LUNgevity FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued)

Contributed services: (continued)

Starting fiscal year ended June 30, 2015, management determined the value of the donated services provided by the Foundation's Scientific Advisory Board (SAB) met the criteria for recognition and should be recorded as the professional services are essential to furthering the mission of the Foundation. For the fiscal year ended June 30, 2015, \$69,800 of professional research services were provided by the SAB and are included in donated goods and services on the statement of activities and the statement of functional expenses.

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 in the financial statements. Accordingly, actual results could differ from those estimates.

3. Property and equipment

The components of property and equipment were as follows:

June 30,	2015	2014
Office equipment	\$ 16,649	\$ 12,450
Computer software and website	15,906	15,906
Event equipment	2,400	2,400
Leasehold improvements	38,383	23,654
	73,338	54,410
Less accumulated depreciation and amortization	34,531	22,649
Property and equipment, net	\$ 38,807	\$ 31,761

LUNgevity FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

4. Contributed goods and services

The Foundation follows the recommendations of the Codification for *Accounting for Contributions Received and Contributions Made*, which requires the Foundation to recognize as revenue the fair value of contributed (donated) goods and services. Donated goods and services consisted of the following:

Years ended June 30,	2015	2014
Board and staff travel	\$ 15,164	\$ 14,936
Event expenses	183,378	237,092
Other	21,431	7,315
Professional fees	5,000	
Research services	69,800	
Total	\$ 294,773	\$ 259,343

Donated goods and services included in event expenses consist of food, beverage, equipment usage, promotional and other expenses.

5. Temporarily restricted net assets

Temporarily restricted net assets of \$1,705,235 and \$656,982 at June 30, 2015 and 2014, respectively, represent time restrictions on pledges receivable collectible within five years. Net assets of \$151,967 and \$387,034 were released from donor restrictions by satisfying time restrictions during the years ended June 30, 2015 and 2014, respectively.

6. Related party transactions and concentration

During the years ended June 30, 2015 and 2014, the Foundation received unconditional promises to give totaling \$1,300,000 and \$452,450, respectively, from related Board members, which was included in contributions and grants revenue on the statement of activities. Of the total unconditional promises to give, approximately \$1,802,000 and \$662,000 was included in pledges receivable as of June 30, 2015 and 2014, respectively and \$150,000 was included in grants receivable at June 30, 2014 on the statement of financial position. These unconditional promises to give due from Board members will be received by the Foundation over the next five years.

LUNgevity FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

7. Tax status

The Foundation is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. In addition, the Internal Revenue Service (IRS) has determined that the Foundation is not a private foundation within the meaning of Section 509(a) of the Code.

8. Conditional grant commitments

The Foundation funds its own request for research award applications and issues research awards to medical investigators for pre-approved studies. The Foundation's scientific advisory board reviews multi-year research awards annually through progress reports. The Foundation reserves the right to terminate future funding for a multi-year award if a progress report reflects unsatisfactory progress. As such, the Foundation is only committed to funding awards for the following year. Future conditional research award commitments total \$2,257,376 for the year ending June 30, 2016 and \$2,396,141 for the year ending June 30, 2017.

9. Leases and other agreements

In March 2013, the Foundation entered into a two-year operating lease for office space. The monthly base rent was \$4,575 (escalating at 3% annually) plus taxes and assessments. The Foundation entered into a new lease commencing on April 1, 2015 for office space. The lease is for five years with an option to extend the lease for an additional three years. The monthly base rent is \$6,071 (escalating at 3% annually) plus taxes and assessments. The Foundation also leases office space in Bethesda, Maryland. The original lease term was for five years ending in November 2016. The monthly base rent was \$3,997 (escalating at 3% annually). In June 2014, the Foundation amended this lease agreement to include additional office space within the same building. The lease term was extended through November 2019 with the monthly base rent for the original premises increasing to \$4,241 (escalating at 5% annually). Effective December 1, 2014, base rent for the additional office space was \$5,584 (escalating at 5% annually). Rent expense was \$152,633 and \$108,902 for the years ended June 30, 2015 and 2014, respectively. In addition, the Foundation leased a photocopier under an operating lease which matured in November 2014.

LUNgevity FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. Leases and other agreements (continued)

Future minimum rental payments under these leases are as follows:

Year ending June 30:	Amount
2016	\$ 196,304
2017	204,652
2018	213,372
2019	222,484
2020	121,979
Total	\$ 958,791

In February 2011, the Foundation entered into a website content license agreement with Global Resource for Advancing Cancer Education (GRACE) in which the Foundation will publish GRACE materials on its website. The agreement was for a term of one year and renews automatically unless terminated by either party upon 60 days prior notice. The expense incurred by the Foundation related to this agreement during the years ended June 30, 2015 and 2014 was \$50,000 and \$67,583, respectively and is included in support services on the statement of functional expenses. During the year ended June 30, 2015, the contract was terminated.

10. Retirement plan

Effective January 1, 2014, the Foundation began sponsoring a 401(k) plan (the Plan) covering all employees who meet the eligibility requirements. The Foundation makes matching contributions to the Plan equal to 100% of the first 3% of employee deferrals and 50% of the next 2% of employee deferrals, up to a maximum of 4% of employee compensation for a calendar year. Contributions to the Plan were \$45,989 and \$23,175 for the years ended June 30, 2015 and 2014, respectively.

11. Concentration of credit risk

The Foundation maintains its cash and cash equivalents in bank deposit accounts which, at times, may exceed federally-insured limits. The uninsured balance was approximately \$713,000 and \$2,830,000 as of June 30, 2015 and 2014, respectively. The Foundation has not experienced any losses in such accounts. Management believes that the Foundation is not exposed to any significant credit risk on cash and cash equivalents.

LUNGevity FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

12. Subsequent events

Management of the Foundation has reviewed and evaluated subsequent events from June 30, 2015, the financial statement date, through September 14, 2015, the date the financial statements were available to be issued. No events have occurred in this period that would be required to be recognized and/or disclosed in these financial statements as required by generally accepted accounting principles.