

LUNGevity FOUNDATION

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

LUNGevity FOUNDATION

YEARS ENDED JUNE 30, 2018 AND 2017

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Independent Auditors' Report

Board of Directors
LUNGeivity Foundation

We have audited the accompanying financial statements of LUNGeivity Foundation (the Foundation), which comprise the statements of financial position as of June 30, 2018 and 2017, 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.

Auditors' 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, 2018 and 2017, 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 21, 2018

LUNGevity FOUNDATION

STATEMENTS OF FINANCIAL POSITION

June 30,	2018	2017
ASSETS		
Cash and cash equivalents	\$ 491,058	\$ 382,896
Accounts and grants receivable	1,292,053	1,333,649
Pledges receivable	1,431,581	1,440,913
Prepaid expenses	169,753	173,680
Security deposits	16,131	15,502
Property and equipment, net	22,821	21,818
Total assets	\$ 3,423,397	\$ 3,368,458
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 115,899	\$ 57,888
Accrued payroll and vacation liabilities	90,044	97,063
Deferred revenue	3,590	6,000
Total liabilities	209,533	160,951
Net assets:		
Unrestricted	693,749	(346,884)
Temporarily restricted	2,520,115	3,554,391
Total net assets	3,213,864	3,207,507
Total liabilities and net assets	\$ 3,423,397	\$ 3,368,458

See notes to financial statements.

LUNgevity FOUNDATION

STATEMENTS OF ACTIVITIES

Years ended June 30,	2018			2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues:						
Contributions and grants	\$ 4,158,187	\$ 1,001,443	\$ 5,159,630	\$ 1,952,226	\$ 2,418,796	\$ 4,371,022
Special events and other fundraisers:						
Gross revenue	3,092,809		3,092,809	3,240,711		3,240,711
Expenses	(737,596)		(737,596)	(721,231)		(721,231)
Interest and dividends	266		266	991		991
Donated goods and services	134,715		134,715	230,260		230,260
Net assets released from restrictions:						
Satisfaction of purpose or time restrictions	2,035,719	(2,035,719)		1,605,176	(1,605,176)	
Total revenues	8,684,100	(1,034,276)	7,649,824	6,308,133	813,620	7,121,753
Expenses:						
Program services	6,015,338		6,015,338	5,516,216		5,516,216
Management and general	750,009		750,009	793,537		793,537
Fundraising	878,120		878,120	783,227		783,227
Total expenses	7,643,467		7,643,467	7,092,980		7,092,980
Change in net assets	1,040,633	(1,034,276)	6,357	(784,847)	813,620	28,773
Net assets (deficit):						
Beginning of year	(346,884)	3,554,391	3,207,507	437,963	2,740,771	3,178,734
End of year	\$ 693,749	\$ 2,520,115	\$ 3,213,864	\$ (346,884)	\$ 3,554,391	\$ 3,207,507

See notes to financial statements.

LUNgevity FOUNDATION

STATEMENTS OF FUNCTIONAL EXPENSES

Year ended June 30, 2018	Program services				Management and general	Fundraising	Direct benefit to donors	Total
	Support services	Patient and Public Education	Research	Total				
Grants			\$ 2,151,438	\$ 2,151,438				\$ 2,151,438
Advertising and marketing	\$ 16	\$ 201,782	11	201,809	\$ 34	\$ 20,432	\$ 3,207	225,482
Credit card and administrative fees	6,851	23,833	4,857	35,541	14,687	14,836		65,064
Donated goods and services			38,656	38,656	2,300		93,759	134,715
Insurance	3,043	10,584	2,156	15,783	6,522	6,589		28,894
License and registration	1,448	19,106	1,027	21,581	3,103	7,825		32,509
Meetings	311,492	75,048	76,187	462,727	2,537	2,562		467,826
Occupancy	23,375	81,310	16,569	121,254	50,107	50,616		221,977
Office supplies and equipment	2,393	11,620	1,915	15,928	5,131	6,382		27,441
Other	3,112	10,153	4,501	17,766	3,231	4,936	121	26,054
Other event expenses		9,710		9,710		3,137	401,444	414,291
Payroll taxes and employee benefits	64,121	223,043	45,453	332,617	137,456	138,848		608,921
Postage	2,518	21,234	1,291	25,043	1,798	8,638		35,479
Printing and design	2,027	61,665	1,524	65,216	3,064	23,728		92,008
Professional fees	3,153	580,735	349,035	932,923	6,758	16,043		955,724
Salaries	230,404	801,465	163,327	1,195,196	493,920	498,926		2,188,042
Support services	70,000			70,000				70,000
Telephone and internet	7,267	25,280	5,152	37,699	15,578	15,737		69,014
Travel	23,141	52,412	17,025	92,578	1,592	19,639		113,809
Venue rentals and fees		6,045		6,045		2,015	239,065	247,125
Website content licensing and other software fees	2,727	157,853	9	160,589	26	35,044		195,659
Total expenses before depreciation and amortization	757,088	2,372,878	2,880,133	6,010,099	747,844	875,933	737,596	8,371,472
Depreciation and amortization	1,010	3,513	716	5,239	2,165	2,187		9,591
Total expenses	758,098	2,376,391	2,880,849	6,015,338	750,009	878,120	737,596	8,381,063
Less expenses included with revenues on the statements of activities							(737,596)	(737,596)
Total expenses included in the expense section of the statements of activities	\$ 758,098	\$ 2,376,391	\$ 2,880,849	\$ 6,015,338	\$ 750,009	\$ 878,120	\$ -	\$ 7,643,467

See notes to financial statements.

LUNgevity FOUNDATION

STATEMENTS OF FUNCTIONAL EXPENSES (CONTINUED)

Year ended June 30, 2017	Program services				Management and general	Fundraising	Direct benefit to donors	Total
	Support services	Patient and Public Education	Research	Total				
Grants			\$ 2,040,388	\$ 2,040,388				\$ 2,040,388
Advertising and marketing	\$ 47	\$ 160,698	57	160,802	\$ 109	\$ 18,120	\$ 1,648	180,679
Credit card and administrative fees	5,683	20,248	6,959	32,890	13,222	11,984		58,096
Donated goods and services	23,200	89,707		112,907	24,909		92,444	230,260
Insurance	2,417	8,610	2,960	13,987	5,624	5,057		24,668
License and registration	17,618	4,673	1,607	23,898	8,488	2,745		35,131
Meetings	233,649	142,766	51,801	428,216	1,651	1,484		431,351
Occupancy	20,764	73,947	25,426	120,137	48,310	43,436		211,883
Office supplies and equipment	1,578	9,673	1,904	13,155	3,618	5,470		22,243
Other	2,844	7,749	3,698	14,291	3,978	4,538		22,807
Other event expenses		1,227		1,227	14,295	409	388,013	403,944
Payroll taxes and employee benefits	56,226	200,233	68,848	325,307	130,811	117,615		573,733
Postage	3,499	22,564	1,484	27,547	2,250	13,715		43,512
Printing and design	1,398	91,529	1,895	94,822	1,990	30,230		127,042
Professional fees	2,282	586,820	7,795	596,897	5,310	4,775	47,687	654,669
Salaries	215,625	764,907	262,959	1,243,491	499,175	449,378		2,192,044
Support services	47,000			47,000				47,000
Telephone and internet	6,479	23,652	7,933	38,064	15,073	13,746		66,883
Travel	18,797	27,542	15,552	61,891	9,542	15,798		87,231
Venue rentals and fees							191,439	191,439
Website content licensing and other software fees	3,471	107,526	1,230	112,227	2,338	42,170		156,735
Total expenses before depreciation and amortization	662,577	2,344,071	2,502,496	5,509,144	790,693	780,670	721,231	7,801,738
Depreciation and amortization	1,222	4,353	1,497	7,072	2,844	2,557		12,473
Total expenses	663,799	2,348,424	2,503,993	5,516,216	793,537	783,227	721,231	7,814,211
Less expenses included with revenues on the statements of activities							(721,231)	(721,231)
Total expenses included in the expense section of the statements of activities	\$ 663,799	\$ 2,348,424	\$ 2,503,993	\$ 5,516,216	\$ 793,537	\$ 783,227	\$ -	\$ 7,092,980

See notes to financial statements.

LUNGevity FOUNDATION

STATEMENTS OF CASH FLOWS

Years ended June 30,	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ 6,357	\$ 28,773
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	9,591	12,473
(Increase) decrease in operating assets:		
Prepaid expenses	3,927	
Accounts and grants receivable	41,596	(11,445)
Pledges receivable	9,332	(134,645)
Security deposits	(629)	(750)
Increase (decrease) in operating liabilities:		
Accounts payable	58,011	(25,313)
Accrued payroll and vacation liabilities	(7,019)	15,027
Grants payable		(300,000)
Deferred revenue	(2,410)	(660)
Net cash provided by (used in) operating activities	118,756	(416,540)
Cash flows from investing activity:		
Purchase of property and equipment	(10,594)	(4,339)
Net cash used in investing activity	(10,594)	(4,339)
Net increase (decrease) in cash and cash equivalents	108,162	(420,879)
Cash and cash equivalents, beginning of year	382,896	803,775
Cash and cash equivalents, end of year	\$ 491,058	\$ 382,896

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 networks, as well as one of the largest online support communities for those affected by lung cancer. 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 in accordance with generally accepted accounting principles.

Basis of presentation:

The Foundation is required to report information regarding its financial position and activities in three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

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 specific time period or purpose, see Note 5. The Foundation had no permanently restricted net assets at June 30, 2018 and 2017.

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 statements of activities as net assets released from restrictions. There were no permanently restricted contributions received for the years ended June 30, 2018 and 2017.

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. Management believes that all accounts receivable as of June 30, 2018 and 2017 are fully collectible; therefore, no allowance for doubtful accounts was recorded. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to bad debt expense and a credit to a valuation allowance.

Pledges receivable:

Pledges receivable included unconditional promises to give at June 30, 2018 and 2017. Pledges due in more than one year were discounted using a risk-adjusted rate of return to reflect the present value of the receivables.

<u>June 30,</u>	<u>2018</u>	<u>2017</u>
Receivable due in less than one year	\$ 371,125	\$ 399,867
Receivable due in one to five years	1,200,000	1,181,387
Total pledges receivable, gross	1,571,125	1,581,254
Less discount to net present value	(139,544)	(140,341)
Total pledges receivable	\$ 1,431,581	\$ 1,440,913

Pledges receivable due in more than one year were discounted at a 2.85% rate for those originating in 2018 and 2017. Amortization of the discount is included in contributions and grants revenue. Management believes that all pledges receivable as of June 30, 2018 and 2017 are fully collectible; therefore, no allowance for doubtful accounts was recorded.

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.

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 \$89,609 and \$128,089 for the years ended June 30, 2018 and 2017, 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 statements 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)

For the fiscal years ended June 30, 2018 and 2017, \$38,100 and \$23,200, respectively, of professional research services were provided by the Science Advisory Board (SAB) and are included in donated goods and services on the statements of activities and the statements 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:

<u>June 30,</u>	<u>2018</u>	<u>2017</u>
Office equipment	\$ 20,380	\$ 16,649
Computer software and website	28,504	24,571
Event equipment	2,400	2,400
Leasehold improvements	41,313	38,383
	92,597	82,003
<u>Less accumulated depreciation and amortization</u>	<u>69,776</u>	<u>60,185</u>
<u>Property and equipment, net</u>	<u>\$ 22,821</u>	<u>\$ 21,818</u>

LUNgevity FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

4. Contributed goods and services

Donated goods and services consisted of the following:

Years ended June 30,	2018	2017
Board and staff travel	\$ 2,300	\$ 4,180
Event expenses	93,759	92,445
Other	556	110,435
Research services	38,100	23,200
Total	\$ 134,715	\$ 230,260

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 \$2,520,115 and \$3,554,391 at June 30, 2018 and 2017, respectively, represent time restrictions on grants, sponsorships and pledges receivable collectible within five years. Net assets of \$2,035,719 and \$1,605,176 were released from donor restrictions by satisfying time restrictions during the years ended June 30, 2018 and 2017, respectively.

6. Related party transactions and concentration

During the years ended June 30, 2018 and 2017, the Foundation received unconditional promises to give totaling \$360,400 and \$921,500, respectively, from Board members, which were included in contributions and grants revenue on the statements of activities. Of the total unconditional promises to give, approximately \$1,546,000 and \$1,531,000 were included in pledges receivable as of June 30, 2018 and 2017, respectively. 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 promises to give

Conditional promises to give consisted of the following:

Years ended June 30,	2018	2017
Stand Up 2 Cancer Dream Team	\$ 1,500,000	\$ 1,875,000
Matching contributions	400,000	600,000
Total	\$ 1,900,000	\$ 2,475,000

9. Conditional grant commitments

The Foundation funds requests 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 \$1,315,000 for the year ending June 30, 2019, \$900,000 for the year ending June 30, 2020 and \$300,000 for the year ending June 30, 2021.

In addition to grant commitments approved by the scientific advisory board, the Foundation also has a commitment to fund the Stand Up 2 Cancer Dream Team \$1,000,000 during the year ending June 30, 2019.

LUNgevity FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

10. Leases and other agreements

The Foundation leases office space in Chicago, Illinois through May 2020 with an option to extend the lease for an additional three years. The Foundation also leases office space in Bethesda, Maryland through November 2022. Rent expense was \$204,652 and \$196,234 for the years ended June 30, 2018 and 2017, respectively.

Future minimum rental payments under these leases are as follows:

Year ending June 30:	Amount
2019	\$ 246,899
2020	236,527
2021	176,783
2022	192,973
2023	82,033
Total	\$ 935,215

11. Retirement plan

The Foundation sponsors 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 \$60,719 and \$55,276 for the years ended June 30, 2018 and 2017, respectively.

12. 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 \$314,000 and \$242,000 as of June 30, 2018 and 2017, 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.

Credit risk for accounts and grants receivable is concentrated as well with one corporation accounting for a total of \$309,000 or 11% of accounts and grants receivable as of June 30, 2018. Management believes that all receivables are collectible within one year and the Foundation is not exposed to any significant credit risk on accounts and grants receivable.

LUNGevity FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

13. Subsequent events

Management of the Foundation has reviewed and evaluated subsequent events from June 30, 2018, the financial statement date, through September 21, 2018, the date the financial statements were available to be issued.