

**LUNGevity FOUNDATION**

YEARS ENDED DECEMBER 31, 2008 AND 2007

# **LUNgevity FOUNDATION**

YEARS ENDED DECEMBER 31, 2008 AND 2007

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## **Independent Auditors' Report**

Board of Directors  
LUNGevity Foundation  
Chicago, Illinois

We have audited the accompanying statement of financial position of LUNGevity Foundation (the Foundation) as of December 31, 2008 and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Foundation as of December 31, 2007, were audited by other auditors whose report dated June 13, 2008, expressed an unqualified opinion on those financial statements. As discussed in Note 11 to the financial statements, the Foundation has adjusted its 2007 financial statements to correct certain errors. The other auditors reported on the 2007 financial statements before the adjustment.

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 the Foundation's 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 LUNGevity Foundation as of December 31, 2008 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.

We also audited the adjustments to restate the 2007 financial statements to correct certain errors as described in Note 11. In our opinion, such adjustments are appropriate and have been properly applied.

*Ostrow Reisin Berk & Abrams, LTD.*

August 25, 2009

# LUNgevity FOUNDATION

## STATEMENT OF FINANCIAL POSITION

December 31,	2008	2007 (As restated)
<b>ASSETS</b>		
Cash and cash equivalents	\$ 762,937	\$ 1,400,768
Investments	1,625,556	957,138
Prepaid expenses	67,755	1,431
Accrued interest receivable	10,499	1,385
Pledges receivable	89,079	
Security deposit	9,095	1,400
Property and equipment, net	29,028	42,088
<b>Total assets</b>	<b>\$ 2,593,949</b>	<b>\$ 2,404,210</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities:</b>		
Accounts payable	\$ 6,695	\$ 54,534
Accrued payroll liabilities	7,660	5,959
Grants payable	50,000	112,500
<b>Total liabilities</b>	<b>64,355</b>	<b>172,993</b>
<b>Net assets:</b>		
Unrestricted	2,472,092	2,218,717
Temporarily restricted	57,502	12,500
<b>Total net assets</b>	<b>2,529,594</b>	<b>2,231,217</b>
<b>Total liabilities and net assets</b>	<b>\$ 2,593,949</b>	<b>\$ 2,404,210</b>

See notes to financial statements.

# LUNGEVITY FOUNDATION

## STATEMENT OF ACTIVITIES

Years ended December 31,	2008		2007 (As restated)		Total
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	
Revenue:					
Contributions and grants	\$ 360,946	\$ 67,000	\$ 427,946	\$ 26,000	\$ 481,198
Fundraising events	1,483,500	12,502	1,496,002	2,500	1,719,367
Interest and dividends	75,214		75,214	68,815	134,029
Net realized and unrealized loss on investments	(113,048)		(113,048)	(1,375)	(114,423)
Donated goods and services	70,824		70,824	13,082	83,906
Miscellaneous revenue				1,425	1,425
Net assets released from restrictions:				(20,500)	(20,500)
Satisfaction of purpose or time restrictions	34,500	(34,500)	20,500		
Total revenue	1,911,936	45,002	1,956,938	8,000	2,282,512
Expenses:					
Program services	921,079		921,079	721,025	1,642,104
Management and general	232,222		232,222	123,892	356,114
Fundraising events	470,882		470,882	456,002	926,884
Fundraising, other	34,378		34,378	60,251	94,629
Total expenses	1,658,561		1,658,561	1,361,170	3,020,114
Change in net assets	253,375	45,002	298,377	913,342	1,474,724
Net assets:					
Beginning of year	2,218,717	12,500	2,231,217	1,305,375	3,539,092
End of year	\$ 2,472,092	\$ 57,502	\$ 2,529,594	\$ 2,218,717	\$ 4,747,813

See notes to financial statements.

**LUNGEVITY FOUNDATION**  
STATEMENT OF FUNCTIONAL EXPENSES

Year ended December 31, 2008	Program services	Management and general	Fundraising events	Fundraising, other	Total
Grants	\$ 838,636				\$ 838,636
Bank charges		2,038			2,038
Credit card and administrative fees		117	\$ 55,483	\$ 6,165	61,765
Donated goods and services		5,000	65,824		70,824
Dues and subscriptions		495			495
Employee training and conferences		841	572	100	1,513
Entertainment			1,954		1,954
Equipment and other rental			6,066		6,066
Golf and food			30,902		30,902
Fall event venue and food			43,289		43,289
Food and security - other events			2,609		2,609
Insurance		1,039	6,017		7,056
License and registration		10,394	6,083	1,886	18,363
Loss on disposal of asset		734			734
Marketing and promotion		8,774	73,330	5,396	87,500
Office supplies and equipment		17,565			17,565
Other		1,854	3,839		5,693
Payroll taxes and employee benefits	3,320	8,854	9,518	443	22,135
Postage	1,350	2,728	11,840	2,629	18,547
Printing, copies and graphic design	4,020	141	9,980	1,253	15,394
Professional fees	10,665	49,059		10,157	69,881
Recruiting		350			350
Rent	4,241	11,310	12,159	566	28,276
Salaries	35,872	95,660	102,834	4,783	239,149
Security services		744			744
Supplies and decorations	523	130	9,911	471	11,035
Telephone	720	4,452			5,172
Travel	9,818	542	11,963		22,323
Utilities		1,949			1,949
Website	9,620	1,336	135	223	11,314
Total expenses before depreciation and amortization	918,785	226,106	464,308	34,072	1,643,271
Depreciation and amortization	2,294	6,116	6,574	306	15,290
Total expenses	\$ 921,079	\$ 232,222	\$ 470,882	\$ 34,378	\$ 1,658,561

See notes to financial statements.

# LUNGEVITY FOUNDATION

## STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)

Year ended December 31, 2007 (As restated)	Program services	Management and general	Fundraising events	Fundraising, other	Total
Grants	\$ 664,250			\$	664,250
Bank charges		\$ 2,359			2,359
Credit card and administrative fees		39	\$ 35,575	\$ 10,036	45,650
Dues and subscriptions		1,050			1,050
Employee training and conferences				11,630	11,630
Entertainment			8,009		8,009
Equipment and other rental			16,997		16,997
Golf and food			52,275		52,275
Fall event venue and food			63,410		63,410
Food and security - other events			10,854		10,854
Insurance		5,176	7,841		13,017
License and registration		3,983	6,148	1,548	11,679
Loss on disposal of asset		999			999
Marketing and promotion		16,308	41,797		58,105
Office supplies and equipment		7,008			7,008
Other	393	1,100	1,060		2,553
Payroll taxes and employee benefits	2,176	3,336	8,123	871	14,506
Postage	19	2,027	10,983	3,767	16,796
Printing, copies and graphic design	3,451	4,041	23,325	11,258	42,075
Professional fees	9,479	18,200	2,725	4,878	35,282
Recruiting		707			707
Rent	3,240	4,968	12,096	1,296	21,600
Salaries	26,400	40,480	98,560	10,560	176,000
Supplies and decorations			43,679	3,306	46,985
Temporary services		4,395	1,000		5,395
Telephone	1,477	1,068	2,694	278	5,517
Travel	8,400	3,478	3,622	276	15,776
Utilities		1,072			1,072
Website	372		120		492
Total expenses before depreciation and amortization	719,657	121,794	450,893	59,704	1,352,048
Depreciation and amortization	1,368	2,098	5,109	547	9,122
Total expenses	\$ 721,025	\$ 123,892	\$ 456,002	\$ 60,251	\$ 1,361,170

See notes to financial statements.

# LUNgevity FOUNDATION

## STATEMENT OF CASH FLOWS

Years ended December 31,	2008	2007 (As restated)
Cash flows from operating activities:		
Change in net assets	\$ 298,377	\$ 921,342
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation and amortization	15,290	9,122
Net realized and unrealized loss on investments	113,048	1,375
Contribution of common stock	(3,178)	
Loss on disposal of asset	734	999
(Increase) decrease in operating assets:		
Prepaid expenses	(66,324)	2,353
Accrued interest receivable	(9,114)	7,540
Pledge receivable	(89,079)	
Security deposit	(7,695)	
Increase (decrease) in operating liabilities:		
Accounts payable	(47,839)	42,275
Accrued payroll liabilities	1,701	(1,509)
Grants payable	(62,500)	(12,500)
Cash provided by operating activities	143,421	970,997
Cash flows from investing activities:		
Purchase of property and equipment	(6,853)	(42,820)
Proceeds from disposal of property and equipment	3,889	
Purchase of investments	(1,827,265)	(2,630,141)
Proceeds from sale of investments	1,048,977	1,959,200
Cash used in investing activities	(781,252)	(713,761)
Increase (decrease) in cash and cash equivalents	(637,831)	257,236
Cash and cash equivalents, beginning of year	1,400,768	1,143,532
Cash and cash equivalents, end of year	\$ 762,937	\$ 1,400,768

See notes to financial statements.



# **LUNgevity FOUNDATION**

## **NOTES TO FINANCIAL STATEMENTS**

### **1. Organization and purpose**

LUNgevity Foundation (the Foundation) is an Illinois non-profit entity incorporated on March 13, 2001 to provide funding for research and programs involving the clinical diagnosis and treatment of lung cancer. In 2007, this mission was expanded to include the provision of online support for people affected by lung cancer. These activities are primarily funded by contributions, grants and fundraising events.

### **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 the requirements of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, 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 December 31, 2008 and 2007.

#### **Unrestricted and restricted revenue and support:**

Contributions and grants received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Donor-restricted contributions are reported as increases in unrestricted net assets unless use of the related asset is limited by donor-imposed restrictions and such restrictions are not met within the same fiscal year.

# **LUNgevity FOUNDATION**

## **NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

### **2. Summary of significant accounting policies (continued)**

#### **Cash and cash equivalents:**

The Foundation considers cash and money market funds held in investment accounts to be cash and cash equivalents.

#### **Investments:**

Investments in certificates of deposit are carried at cost which approximates fair value. All other investments are carried at market value. The Foundation records donated securities at their fair market value at the date of donation.

During the year ended December 31, 2008, the Foundation adopted SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, expands the disclosure requirements around fair value and specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. The value of substantially all the Foundation's assets and liabilities which are required to be carried at fair value are exchange traded and are, therefore, considered Level 1 assets and liabilities.

#### **Pledges receivable:**

Pledges receivable represent unconditional promises to give that are expected to be collected within one year are recorded at net realizable value.

#### **Property and equipment:**

Property and equipment are stated at cost or, if donated, at the approximate fair market value at date of donation. Depreciation 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:**

Grants payable represent amounts due to administrators of the Foundation's research awards in the following year. Such administrators may include other not-for-profit organizations, universities, research laboratories and other institutions funding and/or conducting medical research into the detection, treatment and/or cure of lung cancer. See Note 7.

# **LUNgevity FOUNDATION**

## **NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

### **2. Summary of significant accounting policies (continued)**

#### **Contributed goods and services:**

SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, requires the Foundation to recognize as revenue the fair value of contributed (donated) goods and services.

Donated goods and services of \$70,824 and \$13,082 for the years ended December 31, 2008 and 2007, respectively, represented professional services (\$5,000 in 2008) and fundraising event expenses (\$65,824 in 2008 and \$13,082 in 2007) such as food and beverage, equipment usage, promotional and other expenses related to fundraising events.

The Foundation also 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. None of these amounts have been recognized in the statement of activities because the criteria for recognition under SFAS No. 116 have not been satisfied.

#### **Expense allocation:**

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

#### **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.

#### **Reclassifications:**

Certain prior year amounts have been reclassified in the current year financial statements to conform to the current year presentation.

# LUNgevity FOUNDATION

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### 3. Investments

The components of investments are as follows:

December 31,	2008	2007
Certificates of deposit	\$ 828,095	
Corporate bonds and notes	12,971	
Corporate stock	195,214	\$ 334,470
Mutual funds	266,055	220,932
Other	16,612	10,060
U.S. Government and government agency obligations	306,609	391,676
	<b>\$ 1,625,556</b>	<b>\$ 957,138</b>

### 4. Property and equipment

The components of property and equipment are as follows:

December 31,	2008	2007
Office equipment	\$ 8,252	\$ 7,775
Leasehold improvements		2,561
Computer software and website	44,644	45,828
	<b>52,896</b>	<b>56,164</b>
Less accumulated depreciation and amortization	<b>23,868</b>	<b>14,076</b>
Property and equipment, net	<b>\$ 29,028</b>	<b>\$ 42,088</b>

### 5. Temporarily restricted net assets

Temporarily restricted net assets at December 31, 2008 represent \$12,502 received for sponsorship of 2009 fundraising events and \$28,000 for website design and \$17,000 for volunteer training. Temporarily restricted net assets at December 31, 2007 represented \$2,500 received for sponsorship of 2008 fundraising events and \$10,000 for volunteer training. Those amounts were released from restriction during 2008. Additionally, \$22,000 of purpose restricted donations were received and released from restriction during 2008.

# LUNgevity FOUNDATION

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### 6. Tax status

The Foundation is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code (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 has determined that the Foundation is not a private Foundation within the meaning of Section 509(a) of the Code.

The Foundation has elected to defer the implementation date for FIN 48, *Accounting for Uncertainty in Income Taxes*, to its year ending December 31, 2009, as permitted by FASB Staff Position No. FIN 48-3. The Foundation periodically evaluates its related tax filing exposure related to periods open for examination and does not expect FIN 48 will have a material effect on its financial position and results of operations when adopted.

### 7. Conditional grant commitments

At December 31, 2008, the Foundation has agreements with administrators of the Foundation's research awards in future years. The Foundation's medical advisory board and research committee review multi-year research awards annually through progress reports, which are provided by the grant administrators. The Foundation reserves the right to terminate future funding for a multi-year award if its progress report reflects unsatisfactory progress. As such, the Foundation is only committed to funding awards for the following year. Future conditional research award commitments are as follows:

Year ending December 31:	Amount
2009	\$ 587,500
2010	50,000
Total	\$ 637,500

### 8. Leases

In March 2008, the Foundation entered into a 5-year lease. The monthly base rent is \$2,597 (escalating at 3% annually) plus taxes and assessments. Rent expense was \$28,276 and \$21,600 for the years ended December 31, 2008 and 2007, respectively.

In addition, the Foundation leases a photocopier under an operating lease to mature in 2011.

# LUNgevity FOUNDATION

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### 8. Leases (continued)

Future minimum rental payments under these leases are as follows:

<u>Year ending December 31:</u>	<u>Amount</u>
2009	\$ 34,733
2010	35,692
2011	35,983
2012	34,912
2013	5,847
<u>Total</u>	<u>\$ 147,167</u>

### 9. Retirement plan

The Foundation adopted a SIMPLE-IRA retirement plan in 2007 covering all employees who meet the eligibility requirements. The Foundation makes matching contributions to the plan equal to 100% of employee deferrals, up to a maximum of 3% of employee compensation for a calendar year. Contributions to the plan were \$1,911 in 2008.

### 10. Concentration of credit risk

The Foundation maintains its cash and cash equivalents in bank deposit and investment accounts which, at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts. The Foundation believes it is not exposed to any significant credit risk on cash and cash equivalents.

Investments are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near-term and that such changes could materially affect the Foundation and the amounts reported in the accompanying financial statements.

# LUNgevity FOUNDATION

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### 11. Prior period adjustment

Unrecorded grants payable of \$37,500 as of December 31, 2007 was discovered during the current year. Accordingly, an adjustment was made to correct net assets as of December 31, 2007.

	Amounts prior to adjustment	Adjustment	Amounts as adjusted
Grants payable	\$ 75,000	\$ 37,500	\$ 112,500
Program services expenses	\$ 683,525	\$ 37,500	\$ 721,025
Change in net assets	\$ 958,842	\$ (37,500)	\$ 921,342
Unrestricted net assets	\$ 2,256,217	\$ (37,500)	\$ 2,218,717