

**LUNGevity FOUNDATION**

**YEARS ENDED DECEMBER 31, 2009 AND 2008**

# **LUNGevity FOUNDATION**

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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, 2009 and 2008 and the related statements of activities, functional expenses and cash flows for the years 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 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 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LUNgevity Foundation as of December 31, 2009 and 2008 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Ostrow Reisin Berk & Abrams, LTD.*

July 20, 2010

# LUNgevity FOUNDATION

## STATEMENT OF FINANCIAL POSITION

December 31,	2009	2008
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,572,329	\$ 762,937
Investments	1,086,782	1,625,556
Prepaid expenses	128,175	67,755
Accrued interest receivable	1,358	10,499
Pledges receivable	6,862	89,079
Security deposit	5,195	9,095
Property and equipment, net	17,684	29,028
<b>Total assets</b>	<b>\$ 2,818,385</b>	<b>\$ 2,593,949</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities:</b>		
Accounts payable	\$ 27,679	\$ 6,695
Accrued payroll liabilities	11,630	7,660
Grants payable	35,000	50,000
<b>Total liabilities</b>	<b>74,309</b>	<b>64,355</b>
<b>Net assets:</b>		
Unrestricted	2,744,076	2,472,092
Temporarily restricted		57,502
<b>Total net assets</b>	<b>2,744,076</b>	<b>2,529,594</b>
<b>Total liabilities and net assets</b>	<b>\$ 2,818,385</b>	<b>\$ 2,593,949</b>

*See notes to financial statements.*

# LUNGEVITY FOUNDATION

## STATEMENT OF ACTIVITIES

Years ended December 31,	2009		2008		Total	
	Unrestricted	Temporarily Restricted	Total	Temporarily Restricted		
				Unrestricted		Restricted
<b>Revenue:</b>						
Contributions and grants	\$ 421,820	\$ 421,820	\$ 356,135	\$ 45,000	\$ 401,135	
Special events and other fundraisers:						
Gross revenue	1,970,972	1,970,972	1,510,311	12,502	1,522,813	
Expenses	(537,219)	(537,219)	(331,555)		(331,555)	
Interest and dividends	48,832	48,832	75,214		75,214	
Net realized and unrealized gain (loss) on investments	70,310	70,310	(113,048)		(113,048)	
Donated goods and services	81,853	81,853	70,824		70,824	
Net assets released from restrictions:						
Satisfaction of purpose or time restrictions	57,502	\$ (57,502)	12,500	(12,500)		
<b>Total revenue</b>	<b>2,114,070</b>	<b>(57,502)</b>	<b>1,580,381</b>	<b>45,002</b>	<b>1,625,383</b>	
<b>Expenses:</b>						
Program services	1,345,096	1,345,096	894,934		894,934	
Management and general	184,833	184,833	219,762		219,762	
Fundraising	312,157	312,157	212,310		212,310	
<b>Total expenses</b>	<b>1,842,086</b>	<b>1,842,086</b>	<b>1,327,006</b>		<b>1,327,006</b>	
<b>Change in net assets</b>	<b>271,984</b>	<b>(57,502)</b>	<b>253,375</b>	<b>45,002</b>	<b>298,377</b>	
<b>Net assets:</b>						
Beginning of year	2,472,092	57,502	2,218,717	12,500	2,231,217	
End of year	\$ 2,744,076	\$ -	\$ 2,472,092	\$ 57,502	\$ 2,529,594	

See notes to financial statements.

# LUNgevity FOUNDATION

## STATEMENT OF FUNCTIONAL EXPENSES

Year ended December 31, 2009	Program services	Management and general	Fundraising	Total
Grants	\$ 1,262,088			\$ 1,262,088
Credit card and administrative fees			\$ 62,222	62,222
Dues and subscriptions		\$ 724		724
Employee training and conferences	31	39	91	161
Insurance	2,173	2,746	6,522	11,441
License and registration	2,000	2,527	6,000	10,527
Meals and entertainment		5,964		5,964
Meetings		5,458		5,458
Office supplies and equipment	1,743	2,202	5,230	9,175
Other	308	389	923	1,620
Payroll taxes and employee benefits	8,204	10,362	24,611	43,177
Postage		3,043	106	3,149
Printing, copies and graphic design		3,726	803	4,529
Professional fees		50,068		50,068
Rent	6,070	7,668	18,211	31,949
Salaries	57,678	72,857	173,035	303,570
Telephone	1,262	1,595	3,787	6,644
Travel		10,995		10,995
Utilities	522	660	1,567	2,749
<b>Total expenses before depreciation and amortization</b>	<b>1,342,079</b>	<b>181,023</b>	<b>303,108</b>	<b>1,826,210</b>
<b>Depreciation and amortization</b>	<b>3,017</b>	<b>3,810</b>	<b>9,049</b>	<b>15,876</b>
<b>Total expenses</b>	<b>\$ 1,345,096</b>	<b>\$ 184,833</b>	<b>\$ 312,157</b>	<b>\$ 1,842,086</b>

*See notes to financial statements.*

## LUNGevity FOUNDATION

### STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)

Year ended December 31, 2008	Program services	Management and general	Fundraising	Total
Grants	\$ 838,636			\$ 838,636
Credit card and administrative fees			\$ 27,913	27,913
Dues and subscriptions		\$ 130		130
Insurance	1,059	2,822	3,175	7,056
License and registration	1,559	4,157	4,677	10,393
Loss on disposal of asset		734		734
Meals and entertainment		493		493
Office supplies and equipment	2,212	5,897	6,635	14,744
Other	592	1,580	1,777	3,949
Payroll taxes and employee benefits	3,786	10,095	11,357	25,238
Postage		3,953	2,804	6,757
Printing, copies and graphic design		3,791	12,699	16,490
Professional fees		50,031		50,031
Rent	4,241	11,311	12,724	28,276
Salaries	37,012	98,699	111,037	246,748
Telephone	3,140	8,372	9,419	20,931
Travel		10,504		10,504
Utilities	404	1,077	1,212	2,693
<b>Total expenses before depreciation and amortization</b>	<b>892,641</b>	<b>213,646</b>	<b>205,429</b>	<b>1,311,716</b>
<b>Depreciation and amortization</b>	<b>2,293</b>	<b>6,116</b>	<b>6,881</b>	<b>15,290</b>
<b>Total expenses</b>	<b>\$ 894,934</b>	<b>\$ 219,762</b>	<b>\$ 212,310</b>	<b>\$ 1,327,006</b>

*See notes to financial statements.*

# LUNGevity FOUNDATION

## STATEMENT OF CASH FLOWS

Years ended December 31,	2009	2008
Cash flows from operating activities:		
Change in net assets	\$ 214,482	\$ 298,377
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation and amortization	15,876	15,290
Net realized and unrealized (gain) loss on investments	(70,310)	113,048
Contribution of corporate stock	(2,022)	(3,178)
Loss on disposal of asset		734
(Increase) decrease in operating assets:		
Prepaid expenses	(60,420)	(66,324)
Accrued interest receivable	9,141	(9,114)
Pledges receivable	82,217	(89,079)
Security deposit	3,900	(7,695)
Increase (decrease) in operating liabilities:		
Accounts payable	20,984	(47,839)
Accrued payroll liabilities	3,970	1,701
Grants payable	(15,000)	(62,500)
Cash provided by operating activities	202,818	143,421
Cash flows from investing activities:		
Purchase of property and equipment	(4,532)	(6,853)
Proceeds from disposal of property and equipment		3,889
Purchase of investments	(1,027,798)	(1,827,265)
Proceeds from sale of investments	1,638,904	1,048,977
Cash provided by (used in) investing activities	606,574	(781,252)
Increase (decrease) in cash and cash equivalents	809,392	(637,831)
Cash and cash equivalents, beginning of year	762,937	1,400,768
Cash and cash equivalents, end of year	\$ 1,572,329	\$ 762,937

*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 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 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 December 31, 2009 and 2008.

#### **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.

#### **Pledges receivable:**

Pledges receivable represent unconditional promises to give that are expected to be collected within one year. Pledges receivable 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:**

The Foundation follows the recommendations of the FASB Accounting Standards 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 of \$81,853 and \$70,824 for the years ended December 31, 2009 and 2008, respectively, represented professional and graphic design services (\$3,010 in 2009 and \$5,000 in 2008) and fundraising event expenses (\$78,843 in 2009 and \$65,824 in 2008) 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 has not been met.

#### **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 - fair value measurements

FASB ASC 820, *Fair Value Measurements and Disclosure*, establishes a framework for measuring fair value in generally accepted accounting principles. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

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Level 1            Inputs to valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

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Level 2            Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

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Level 3            Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

# LUNgevity FOUNDATION

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### 3. Investments - fair value measurements (continued)

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2009 and 2008. All assets are valued at the closing price reported on the active market on which the individual assets are traded, except as follows:

Certificates of deposit: Valued at cost, which approximates fair value.

Mutual funds: Valued at the Net Asset Value (NAV) of shares held by the Foundation at year-end.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes that its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of December 31, 2009 and 2008.

Total assets at fair value as of December 31, 2009:

	Level 1	Level 2	Total
<b>Certificates of deposit</b>		\$ 199,943	\$ 199,943
<b>Corporate bonds and notes</b>	\$ 13,783		13,783
<b>Corporate stock - common and preferred:</b>			
<b>Long-term capital appreciation and modest inflation protection equities</b>	486,198		486,198
<b>Mutual funds:</b>			
<b>Balanced funds</b>	8,373		8,373
<b>Equity funds</b>	2,100		2,100
<b>Fixed income funds</b>	108,998		108,998
<b>Other</b>	20,604		20,604
<b>U.S. Government securities</b>	246,783		246,783
<b>Total assets</b>	<b>\$ 886,839</b>	<b>\$ 199,943</b>	<b>\$ 1,086,782</b>

# LUNGevity FOUNDATION

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### 3. Investments - fair value measurements (continued)

Total assets at fair value as of December 31, 2008:

	Level 1	Level 2	Total
Certificates of deposit		\$ 828,095	\$ 828,095
Corporate bonds and notes	\$ 12,971		12,971
Corporate stock - common:			
Long-term capital appreciation and modest inflation protection equities	195,214		195,214
Mutual funds:			
Balanced funds	6,864		6,864
Equity funds	22,145		22,145
Fixed income funds	237,046		237,046
Other	16,612		16,612
U.S. Government securities	306,609		306,609
Total assets	\$ 797,461	\$ 828,095	\$ 1,625,556

### 4. Property and equipment

The components of property and equipment are as follows:

December 31,	2009	2008
Office equipment	\$ 4,212	\$ 4,212
Computer software and website	53,216	48,684
	57,428	52,896
Less accumulated depreciation and amortization	39,744	23,868
Property and equipment, net	\$ 17,684	\$ 29,028

### 5. Temporarily restricted net assets

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

# 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 (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 has determined that the Foundation is not a private foundation within the meaning of Section 509(a) of the Code.

### 7. Conditional grant commitments

At December 31, 2009 and 2008, the Foundation had 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
2010	\$ 520,723
2011	75,000
Total	\$ 595,723

### 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 \$31,949 and \$28,276 for the years ended December 31, 2009 and 2008, respectively. In addition, the Foundation leases a photocopier under an operating lease to mature in 2011. Future minimum rental payments under these leases are as follows:

Year ending December 31:	Amount
2010	\$ 35,692
2011	35,983
2012	34,912
2013	5,847
Total	\$ 112,434

# **LUNgevity FOUNDATION**

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

### **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 \$6,601 and \$1,911 in 2009 and 2008, respectively.

### **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. Management believes that the Foundation 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.

### **11. Subsequent events**

Management of the Foundation has reviewed and evaluated subsequent events from December 31, 2009, the financial statement date, through July 20, 2010, the date the financial statements were available to be issued. Except for the items noted below, 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.

Effective January 1, 2010, the Foundation changed its year-end from December 31 to June 30.

In late 2009, the Foundation opened talks with Protect Your Lungs, an unincorporated entity operating within the structure of Prevent Cancer, a 501(c)(3) charitable organization (Prevent Cancer DBA Protect Your Lungs), to explore partnership opportunities. The complements between the organizations include: similar missions, complementary scientific advisory board members, access to fundraising opportunities and expanding constituency across the United States. The Board of Directors of the Foundation voted to approve the merger on April 27, 2010 and approved the merger agreement on May 18, 2010; the merger of Protect Your Lungs into the Foundation was effective on June 1, 2010.