LUNGevity FOUNDATION

SIX MONTHS ENDED JUNE 30, 2010

LUNGevity FOUNDATION

SIX MONTHS ENDED JUNE 30, 2010

CONTENTS

Ostrow
Reisin
Berk &
Abrams,
Ltd.

Certified Public Accountants*
NBC Tower - Suite 1500
455 N. Cityfront Plaza Dr.
Chicago, IL 60611-5313

Telephone 312.670.7444
Facsimile 312.670.8301
E-mail info@orba.com
Web site www.orba.com

Independent Affiliate of BKR International

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 June 30, 2010 and the related statements of activities, functional expenses and cash flows for the six months 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.

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 June 30, 2010 and the changes in its net assets and its cash flows for the six months then ended in conformity with accounting principles generally accepted in the United States of America.

Ostrow Reisin Berk & Abrams, LTD.

October 13, 2010

*Also licensed to practice by the State of Florida

LUNGevity FOUNDATION

STATEMENT OF FINANCIAL POSITION

June 30, 2010	
ASSETS	
Cash and cash equivalents	$ 1,892,790
Investments	869,070
Prepaid expenses	132,197
Accrued interest receivable	1,042
Pledges receivable	419,836
Security deposits	7,145
Property and equipment, net	22,743
Total assets	$ 3,344,823
LIABILITIES AND NET ASSETS	
Liabilities:	
Accounts payable	$ 2,732
Accrued payroll and vacation liabilities	21,665
Deferred revenue	103,372
Total liabilities	127,769
Net assets:	
Unrestricted	3,211,368
Temporarily restricted	5,686
Total net assets	3,217,054
Total liabilities and net assets	$ 3,344,823

See notes to financial statements.

LUNGevity FOUNDATION

STATEMENT OF ACTIVITIES

Six months ended June 30, 2010	Unrestricted	Temporarily Restricted	Total
Revenue:			
Contributions and grants	$ 922,436	$ 40,000	$ 962,436
Special events and other fundraisers:			
Gross revenue	51,173		51,173
Expenses	(42,595)		(42,595)
Interest and dividends	18,946		18,946
Net realized and unrealized loss on investments	(24,137)		(24,137)
Donated goods and services	13,068		13,068
Net assets released from restrictions:			
Satisfaction of purpose restriction	34,314	(34,314)	
Total revenue	973,205	5,686	978,891
Expenses:			
Program services	194,773		194,773
Management and general	148,870		148,870
Fundraising	162,270		162,270
Total expenses	505,913		505,913
Change in net assets	467,292	5,686	472,978
Net assets:			
Beginning of period	2,744,076		2,744,076
End of period	$ 3,211,368	$ 5,686	$ 3,217,054

See notes to financial statements.

LUNGevity FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

Six months ended June 30, 2010	Program services	Management and general	Fundraising	Total
Grants	$ 143,223			$ 143,223
Credit card and administrative fees			$ 7,509	7,509
Dues and subscriptions		$ 25		25
Employee training and conferences	979	3,328	5,481	9,788
Insurance	179	610	1,004	1,793
License and registration	64	217	358	639
Meals and entertainment		364		364
Meetings	23,913	4,631		28,544
Office supplies and equipment	424	1,440	2,372	4,236
Other	193	653	1,079	1,925
Payroll taxes and employee benefits	2,808	9,548	15,725	28,081
Postage		1,833		1,833
Professional fees		43,105		43,105
Rent	1,637	5,567	9,169	16,373
Salaries	19,983	67,941	111,902	199,826
Telephone	523	1,779	2,929	5,231
Travel		4,949		4,949
Utilities	128	436	717	1,281
Total expenses before depreciation and amortization	194,054	146,426	158,245	498,725
Depreciation and amortization	719	2,444	4,025	7,188
Total expenses	$ 194,773	$ 148,870	$ 162,270	$ 505,913

See notes to financial statements.

LUNGevity FOUNDATION

STATEMENT OF CASH FLOWS

Six months ended June 30, 2010	
Cash flows from operating activities:	
Change in net assets	$ 472,978
Adjustments to reconcile change in net assets to cash provided by operating activities:	
Depreciation and amortization	7,188
Net realized and unrealized loss on investments	24,137
Gain on disposal of asset	(774)
(Increase) decrease in operating assets:	
Prepaid expenses	(4,022)
Accrued interest receivable	316
Pledges receivable	(412,974)
Security deposits	(1,950)
Increase (decrease) in operating liabilities:	
Accounts payable	(24,947)
Accrued payroll and vacation liabilities	10,035
Grants payable	(35,000)
Deferred revenue	103,372
Cash provided by operating activities	138,359
Cash flows from investing activities:	
Purchase of property and equipment	(14,258)
Proceeds from disposal of property and equipment	2,786
Purchase of investments	(108,385)
Proceeds from sale of investments	301,959
Cash provided by investing activities	182,102
Increase in cash and cash equivalents	320,461
Cash and cash equivalents, beginning of period	1,572,329
Cash and cash equivalents, end of period	$ 1,892,790

See 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.

Effective June 1, 2010, the Foundation merged 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). The complements between the organizations include: similar missions, complementary scientific advisory board members, access to fundraising opportunities and expanding constituency across the United States. Contributions and grants include $367,200 from Protect Your Lungs. No other assets or liabilities of Protect Your Lungs were transferred from Protect Your Lungs or assumed by the Foundation.

2. Summary of significant accounting policies

The significant accounting policies of the Foundation are summarized below:

Change in fiscal year-end:

Effective January 1, 2010, the Foundation changed its year-end from December 31 to June 30 to more closely coincide with their cycle of fundraising events, which are the primary source of revenue for the Foundation.

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.

2. Summary of significant accounting policies (continued)

Basis of presentation: (continued)

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, 2010.

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.

Cash and cash equivalents:

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

Investments:

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.

2. Summary of significant accounting policies (continued)

Deferred revenue:

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

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 of $13,068 for the six months ended June 30, 2010 represented pro bono legal services ($11,348) and fundraising event expenses ($1,720) such as food and beverage, equipment usage, promotional and other expenses.

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 have 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.

3. Fair value measurements

Financial Accounting Standards Board Accounting Standards Codification 820 (FASB ASC 820) *Fair Value Measurements and Disclosures* 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:

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

The asset's 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.

3. 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 June 30, 2010. All assets are valued at the closing price reported on the active market on which the individual assets are traded, except as follows:

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 June 30, 2010.

	Level 1
Corporate bonds and notes	$ 13,883
Corporate stock - common and preferred:	
Long-term capital appreciation and modest inflation protection equities	492,081
Mutual funds:	
Balanced funds	7,996
Equity funds	1,342
Fixed income funds	103,885
Other	23,363
U.S. Government securities	226,520
Total assets at fair value	$ 869,070

4. Property and equipment

The components of property and equipment are as follows:

June 30, 2010		
Office equipment	$	4,212
Computer software and website		51,729
Leasehold improvements		12,960
		68,901
Less accumulated depreciation and amortization		46,158
Property and equipment, net	$	22,743

5. Temporarily restricted net assets

Temporarily restricted net assets of $5,686 at June 30, 2010 represent amounts received for volunteer training.

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

Prior to June 1, 2010, 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.

Subsequent to the merger with Protect Your Lungs, the Foundation will issue and fund its own requests for applications.

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 $16,373 for the six months ended June 30, 2010. 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 June 30:	Amount
2011	$ 36,183
2012	35,097
2013	23,388
Total	$ 94,668

Subsequent to year-end, the Foundation plans to enter into an additional lease agreement for office space in Washington, D.C. for a one-year term at $2,000 per month.

9. Retirement plan

The Foundation adopted a SIMPLE-IRA retirement plan (the 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 $3,551 for the six months ended June 30, 2010.

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 June 30, 2010, the financial statement date, through October 13, 2010, the date the financial statements were available to be issued. Except for an item noted in Note 8, 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.