LUNGevity FOUNDATION

YEAR ENDED JUNE 30, 2011

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 June 30, 2011 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.

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, 2011 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.

Ostrow Reisin Berk & Abrams, LTD.

October 3, 2011

LUNGevity FOUNDATION

STATEMENT OF FINANCIAL POSITION

June 30, 2011	
ASSETS	
Cash and cash equivalents	$ 3,338,296
Investments	933,066
Prepaid expenses	75,153
Accounts and grants receivable	169,430
Pledges receivable	985,256
Security deposits	10,095
Property and equipment, net	27,747
Total assets	$ 5,539,043
LIABILITIES AND NET ASSETS	
Liabilities:	
Accounts payable	$ 15,029
Accrued payroll and vacation liabilities	42,779
Grants payable	2,000,000
Deferred revenue	171,096
Total liabilities	2,228,904
Net assets:	
Unrestricted	2,324,883
Temporarily restricted	985,256
Total net assets	3,310,139
Total liabilities and net assets	$ 5,539,043

See notes to financial statements.

LUNGevity FOUNDATION

STATEMENT OF ACTIVITIES

Year ended June 30, 2011	Unrestricted	Temporarily Restricted	Total
Revenue:			
Contributions and grants	$ 1,462,791	$ 1,210,256	$ 2,673,047
Special events and other fundraisers:			
Gross revenue	2,037,238		2,037,238
Expenses	(666,113)		(666,113)
Interest and dividends	43,903		43,903
Net realized and unrealized gain on investments	158,022		158,022
Loss on disposal of assets	(677)		(677)
Donated goods and services	261,033		261,033
Net assets released from restrictions:			
Satisfaction of purpose or time restrictions	230,686	(230,686)	
Total revenue	3,526,883	979,570	4,506,453
Expenses:			
Program services	3,206,339		3,206,339
Management and general	456,953		456,953
Fundraising	750,076		750,076
Total expenses	4,413,368		4,413,368
Change in net assets	(886,485)	979,570	93,085
Net assets:			
Beginning of year	3,211,368	5,686	3,217,054
End of year	$ 2,324,883	$ 985,256	$ 3,310,139

See notes to financial statements.

LUNGevity FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2011	Program services	Management and general	Fundraising	Total
Grants	$ 2,593,534			$ 2,593,534
Advertising and marketing	16,436	$ 715	$ 9,033	26,184
Credit card and administrative fees		777	32,760	33,537
Donated goods and services	24,000	31,056	18,315	73,371
Dues and subscriptions	9,406	179		9,585
Employee training and conferences		1,045	575	1,620
Insurance	5,974	2,337	4,173	12,484
License and registration	5,494	2,389	4,131	12,014
Meals and entertainment		754	227	981
Meetings	31,021	501		31,522
Office supplies and equipment	6,229	2,226	3,783	12,238
Other	1,636	712	1,796	4,144
Payroll taxes and employee benefits	56,194	24,432	41,535	122,161
Postage	5,936	4,114	18,141	28,191
Printing and design	23,460	19,789	62,303	105,552
Professional fees	10,744	189,596	271,540	471,880
Rent	23,643	10,280	17,476	51,399
Salaries	307,067	131,066	231,813	669,946
Telephone	10,085	4,332	7,365	21,782
Travel	22,398	27,626	12,034	62,058
Utilities	1,186	516	876	2,578
Website content licensing and other software fees	46,136	52	7,852	54,040
Total expenses before depreciation and amortization	3,200,579	454,494	745,728	4,400,801
Depreciation and amortization	5,760	2,459	4,348	12,567
Total expenses	$ 3,206,339	$ 456,953	$ 750,076	$ 4,413,368

See notes to financial statements.

LUNGevity FOUNDATION

STATEMENT OF CASH FLOWS

Year ended June 30, 2011	
Cash flows from operating activities:	
Change in net assets	$ 93,085
Adjustments to reconcile change in net assets to cash provided by operating activities:	
Depreciation and amortization	12,567
Net realized and unrealized gain on investments	(158,022)
Contribution of corporate stock	(1,819)
Loss on disposal of assets	677
(Increase) decrease in operating assets:	
Prepaid expenses	57,044
Accounts and grants receivable	251,448
Pledges receivable	(985,256)
Security deposits	(2,950)
Increase in operating liabilities:	
Accounts payable	12,297
Accrued payroll and vacation liabilities	21,114
Grants payable	2,000,000
Deferred revenue	67,724
Cash provided by operating activities	1,367,909
Cash flows from investing activities:	
Purchase of property and equipment	(18,248)
Purchase of investments	(410,154)
Proceeds from sale of investments	505,999
Cash provided by investing activities	77,597
Increase in cash and cash equivalents	1,445,506
Cash and cash equivalents, beginning of year	1,892,790
Cash and cash equivalents, end of year	$ 3,338,296

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 the most promising research into the early detection and successful treatment of lung cancer. The Foundation also supports the largest national grassroots lung cancer network, as well as the largest online support community 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 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 6. 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, 2011.

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.

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 are carried at fair value. The Foundation records donated securities at their fair value at the date of donation.

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 include unconditional promises to give at June 30, 2011. 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, 2011	
Receivable due in less than one year	$ 352,000
Receivable due in one to five years	678,000
Total pledges receivable	1,030,000
Less discount to net present value	(44,744)
Unconditional promises to give	$ 985,256

Unconditional promises to give and receivable more than one year were discounted at 2.25%. Amortization of the discount is included in contributions and grants revenue. An allowance for doubtful accounts is considered unnecessary and is not provided.

2. Summary of significant accounting policies (continued)

Property and equipment:

Property and equipment are stated at cost or, if donated, at fair 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:

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 9.

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.

Advertising and marketing:

Advertising and marketing costs were expensed when incurred. Total advertising and marketing costs were $76,998 for the year ended June 30, 2011, of which $50,814 is included in donated goods and services on the statement of functional expenses.

Joint costs and 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.

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. 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, 2011.

All assets are valued at the closing price reported on the active market on which the individual assets are traded, except mutual funds which are value 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, 2011:

	Level 1
Corporate bonds and notes	$ 13,767
Corporate stock - common and preferred:	
Long-term capital appreciation and modest inflation protection equities	769,808
Mutual funds:	
Balanced funds	9,418
Fixed income funds	42,310
Other	28,032
U.S. Government securities	69,731
Total assets at fair value	$ 933,066

4. Property and equipment

The components of property and equipment are as follows:

June 30, 2011	
Office equipment	$ 5,763
Computer software and website	52,223
Event equipment	2,400
Leasehold improvements	12,960
	73,346
Less accumulated depreciation and amortization	45,599
Property and equipment, net	$ 27,747

5. 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:

Year ended June 30, 2011	
Advertising and marketing	$ 50,814
Board and staff travel	20,643
Event expenses	187,662
Printing and design	914
Professional services	1,000
Total	$ 261,033

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

5. Contributed goods and services (continued)

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.

6. Temporarily restricted net assets

Temporarily restricted net assets of $985,256 at June 30, 2011 represent time restrictions on pledges receivable collectible within five years.

7. Related party transactions and concentration

During the year ended June 30, 2011, the Foundation received unconditional promises to give totaling $1,125,000 from related Board members, which is included in contributions and grants revenue on the statement of activities. Of the total unconditional promises to give, $900,000 is included in pledges receivable, net at June 30, 2011 and will be received by the Foundation over the next five years.

8. 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.

9. 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 $2,000,000 for the year ending June 30, 2012.

10. Leases and other agreements

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. In September 2010, the Foundation entered into a two-year operating sublease for office space in Bethesda, Maryland. The monthly base rent is $2,000. Rent expense was $51,399 for the year ended June 30, 2011. 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
2012	$ 59,097
2013	29,388
Total	$ 88,485

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. Total cost per the agreement is $110,000 annually. The agreement is for a term of one year and shall renew automatically unless terminated by either party upon 60 days prior notice. The expense incurred by the Foundation related to this agreement during the year ended June 30, 2011 was $41,256 and is included in website content licensing and other software fees on the statement of functional expenses.

11. Retirement plan

The Foundation has adopted a SIMPLE-IRA retirement plan (the Plan) 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 $7,471 for the year ended June 30, 2011.

12. 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.

12. Concentration of credit risk (continued)

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.

13. Subsequent events

Management of the Foundation has reviewed and evaluated subsequent events from June 30, 2011, the financial statement date, through October 3, 2011, 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.