

LUNGevity FOUNDATION

YEARS ENDED JUNE 30, 2012 AND 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, 2012 and 2011 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 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 June 30, 2012 and 2011 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.

October 9, 2012

LUNGevity FOUNDATION

STATEMENT OF FINANCIAL POSITION

June 30,	2012	2011
ASSETS		
Cash and cash equivalents	\$ 4,070,951	\$ 3,338,296
Investments		933,066
Prepaid expenses	109,556	75,153
Accounts and grants receivable	589,669	169,430
Pledges receivable	646,534	985,256
Security deposits	20,986	10,095
Property and equipment, net	28,391	27,747
Total assets	\$ 5,466,087	\$ 5,539,043
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 31,113	\$ 15,029
Accrued payroll and vacation liabilities	26,985	42,779
Grants payable	2,500,000	2,000,000
Deferred revenue	17,353	171,096
Total liabilities	2,575,451	2,228,904
Net assets:		
Unrestricted	2,239,102	2,324,883
Temporarily restricted	651,534	985,256
Total net assets	2,890,636	3,310,139
Total liabilities and net assets	\$ 5,466,087	\$ 5,539,043

See notes to financial statements.

LUNgevity FOUNDATION

STATEMENT OF ACTIVITIES

Years ended June 30,	2012			2011		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue:						
Contributions and grants	\$ 1,622,283	\$ 88,518	\$ 1,710,801	\$ 1,462,791	\$ 1,210,256	\$ 2,673,047
Special events and other fundraisers:						
Gross revenue	4,417,442		4,417,442	2,037,238		2,037,238
Expenses	(965,592)		(965,592)	(666,113)		(666,113)
Interest and dividends	18,250		18,250	43,903		43,903
Net realized and unrealized gain (loss) on investments	(56,958)		(56,958)	158,022		158,022
Loss on disposal of assets				(677)		(677)
Donated goods and services	458,994		458,994	261,033		261,033
Net assets released from restrictions:						
Satisfaction of purpose or time restrictions	422,240	(422,240)		230,686	(230,686)	
Total revenue	5,916,659	(333,722)	5,582,937	3,526,883	979,570	4,506,453
Expenses:						
Program services	4,672,524		4,672,524	3,206,339		3,206,339
Management and general	304,388		304,388	456,953		456,953
Fundraising	1,025,528		1,025,528	750,076		750,076
Total expenses	6,002,440		6,002,440	4,413,368		4,413,368
Change in net assets	(85,781)	(333,722)	(419,503)	(886,485)	979,570	93,085
Net assets:						
Beginning of year	2,324,883	985,256	3,310,139	3,211,368	5,686	3,217,054
End of year	\$ 2,239,102	\$ 651,534	\$ 2,890,636	\$ 2,324,883	\$ 985,256	\$ 3,310,139

See notes to financial statements.

LUNgevity FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

Years ended June 30,	2012					2011				
	Program services	Management and general	Fundraising	Direct benefit to donors	Total	Program services	Management and general	Fundraising	Direct benefit to donors	Total
Grants	\$ 3,028,979				\$ 3,028,979	\$ 2,593,534				\$ 2,593,534
Advertising and marketing	107,162		\$ 20,861		128,023	16,436	\$ 715	\$ 9,033		26,184
Credit card and administrative fees	175	\$ 2,413	49,383		51,971		777	32,760		33,537
Donated goods and services	63,692			\$ 395,302	458,994	24,000	31,056	18,315	\$ 187,662	261,033
Dues and subscriptions	294	994			1,288	9,406	179			9,585
Employee training and conferences	3,452	490	3,098		7,040		1,045	575		1,620
Insurance	5,588	2,677	5,868		14,133	5,974	2,337	4,173		12,484
License and registration	17,371	4,554	13,092		35,017	5,494	2,389	4,131		12,014
Meals and entertainment	1,115	270	975		2,360		754	227	51,661	52,642
Meetings	54,733	3,166			57,899	31,021	501			31,522
Office supplies and equipment	10,182	2,212	6,625	1,877	20,896	6,229	2,226	3,783		12,238
Other	3,543	1,486	3,980		9,009	1,636	712	1,796		4,144
Other event expenses	24,665		10,258	219,881	254,804				347,914	347,914
Payroll taxes and employee benefits	98,387	44,274	103,306		245,967	56,194	24,432	41,535		122,161
Postage	13,328	2,044	22,283		37,655	5,936	4,114	18,141		28,191
Printing and design	34,433	2,316	60,784		97,533	23,460	19,789	62,303		105,552
Professional fees	396,674	5,854	104,957	26,352	533,837	10,744	189,596	271,540		471,880
Rent	32,015	14,406	33,615		80,036	23,643	10,280	17,476		51,399
Salaries	453,628	204,133	476,310		1,134,071	307,067	131,066	231,813		669,946
Support services	113,100				113,100	41,256				41,256
Telephone	12,968	5,746	13,406		32,120	10,085	4,332	7,365		21,782
Travel	100,903	4,701	46,970		152,574	22,398	27,626	12,034		62,058
Utilities	956	430	1,004		2,390	1,186	516	876		2,578
Venue rentals and fees				322,180	322,180					
Website content licensing and other software fees	90,540	130	43,878		134,548	4,880	52	7,852	78,876	91,660
Total expenses before depreciation and amortization	4,667,883	302,296	1,020,653	965,592	6,956,424	3,200,579	454,494	745,728	666,113	5,066,914
Depreciation and amortization	4,641	2,092	4,875		11,608	5,760	2,459	4,348		12,567
Less expenses included with revenue on the statement of activities				(965,592)	(965,592)				(666,113)	(666,113)
Total expenses	\$ 4,672,524	\$ 304,388	\$ 1,025,528	\$ -	\$ 6,002,440	\$ 3,206,339	\$ 456,953	\$ 750,076	\$ -	\$ 4,413,368

See notes to financial statements.

LUNGevity FOUNDATION

STATEMENT OF CASH FLOWS

Years ended June 30,	2012	2011
Cash flows from operating activities:		
Change in net assets	\$ (419,503)	\$ 93,085
Adjustments to reconcile change in net assets to cash provided by (used in) operating activities:		
Depreciation and amortization	11,608	12,567
Net realized and unrealized (gain) loss on investments	56,958	(158,022)
Contribution of corporate stock	(1,126)	(1,819)
Loss on disposal of assets		677
(Increase) decrease in operating assets:		
Prepaid expenses	(34,403)	57,044
Accounts and grants receivable	(420,239)	251,448
Pledges receivable	338,722	(985,256)
Security deposits	(10,891)	(2,950)
Increase (decrease) in operating liabilities:		
Accounts payable	16,084	12,297
Accrued payroll and vacation liabilities	(15,794)	21,114
Grants payable	500,000	2,000,000
Deferred revenue	(153,743)	67,724
Cash provided by (used in) operating activities	(132,327)	1,367,909
Cash flows from investing activities:		
Purchase of property and equipment	(12,252)	(18,248)
Purchase of investments	(116,786)	(410,154)
Proceeds from sale of investments	994,020	505,999
Cash provided by investing activities	864,982	77,597
Increase in cash and cash equivalents	732,655	1,445,506
Cash and cash equivalents, beginning of year	3,338,296	1,892,790
Cash and cash equivalents, end of year	\$ 4,070,951	\$ 3,338,296

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 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 Organization. Temporarily restricted net assets represent those for which the use by the Organization 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 Organization in perpetuity. The Foundation had no permanently restricted net assets at June 30, 2012 and 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.

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 were carried at fair value. The Foundation records donated securities at their fair value at the date of donation. The Foundation liquidated all investments during the year ended June 30, 2012.

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, 2012 and 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,	2012	2011
Receivable due in less than one year	\$ 291,000	\$ 352,000
Receivable due in one to five years	375,951	678,000
Total pledges receivable	666,951	1,030,000
Less discount to net present value	(20,417)	(44,744)
Unconditional promises to give	\$ 646,534	\$ 985,256

Unconditional promises to give and receivable more than one year were discounted at 2.25% in 2012 and 2011. Amortization of the discount is included in contributions and grants revenue. An allowance for doubtful accounts is considered unnecessary and is not provided.

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 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 \$148,148 and \$76,998 for the years ended June 30, 2012 and 2011, respectively, of which \$20,125 and \$50,814, respectively, 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.

LUNGevity FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued)

Reclassifications:

Certain amounts reported in the prior year have been reclassified in order to conform to the current year's presentation.

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 value of all of the Foundation's assets which were required to be carried at fair value were exchange-traded and were considered Level 1 assets.

Following is a description of the valuation methodologies used for assets measured at fair value.

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 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 management believes that the Foundation's 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.

LUNgevity FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. Fair value measurements (continued)

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,	2012	2011
Office equipment	\$ 13,717	\$ 5,763
Computer software and website	53,392	52,223
Event equipment	2,400	2,400
Leasehold improvements	16,089	12,960
	85,598	73,346
Less accumulated depreciation and amortization	57,207	45,599
Property and equipment, net	\$ 28,391	\$ 27,747

LUNgevity FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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:

Years ended June 30,	2012	2011
Advertising and marketing	\$ 20,125	\$ 50,814
Board and staff travel		20,643
Event expenses	395,302	187,662
Merchandise	42,567	
Printing and design		914
Professional services	1,000	1,000
Total	\$ 458,994	\$ 261,033

Donated goods and services included in event expenses consist of food, 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.

6. Temporarily restricted net assets

Temporarily restricted net assets of \$651,534 and \$985,256 at June 30, 2012 and 2011, respectively, 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, \$603,761 and \$900,000, respectively, is included in pledges receivable at June 30, 2012 and 2011 and will be received by the Foundation over the next five years.

LUNgevity FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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 \$500,000 for the year ending June 30, 2013 and \$500,000 for the year ending June 30, 2014.

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 was \$2,000. In December 2011, the Foundation moved offices and entered into a new lease in Bethesda, Maryland for a term of 5 years. The monthly base rent is \$3,997 (escalating at 3% annually). Rent expense was \$80,036 and \$51,399 for the years ended June 30, 2012 and 2011, respectively. In addition, the Foundation leases a photocopier under an operating lease to mature in 2014. Future minimum rental payments under these leases are as follows:

<u>Year ending June 30:</u>	<u>Amount</u>
2013	\$ 75,975
2014	54,053
2015	53,358
2016	53,338
2017	22,498
<u>Total</u>	<u>\$ 259,222</u>

LUNGevity FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

10. Leases and other agreements (continued)

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 years ended June 30, 2012 and 2011 was \$113,100 and \$41,256, respectively and is included in support services 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 \$17,925 and \$7,471 for the years ended June 30, 2012 and 2011, 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 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.

13. Subsequent events

Management of the Foundation has reviewed and evaluated subsequent events from June 30, 2012, the financial statement date, through October 9, 2012, 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.