

**LUNGevity FOUNDATION**

YEARS ENDED JUNE 30, 2014 AND 2013

# **LUNGevity FOUNDATION**

**YEARS ENDED JUNE 30, 2014 AND 2013**

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## **Independent Auditor's Report**

Board of Directors  
LUNGeivity Foundation  
Chicago, Illinois

We have audited the accompanying financial statements of LUNGeivity Foundation (the Foundation), which comprise the statement of financial position as of June 30, 2014 and 2013 and the related statements of activities, functional expenses and cash flows for the years then ended and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LUNGeivity Foundation as of June 30, 2014 and 2013 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Ostrow Reisin Berk & Abrams, Ltd.*

September 23, 2014

# LUNGevity FOUNDATION

## STATEMENT OF FINANCIAL POSITION

June 30,	2014	2013
<b>ASSETS</b>		
Cash and cash equivalents	\$ 3,455,436	\$ 3,104,843
Prepaid expenses	206,010	201,731
Accounts and grants receivable	1,120,000	638,302
Pledges receivable	656,982	671,398
Security deposits	14,752	9,722
Property and equipment, net	31,761	34,898
Total assets	\$ 5,484,941	\$ 4,660,894
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable	\$ 24,749	\$ 31,660
Accrued payroll and vacation liabilities	32,888	91,702
Grants payable	2,353,689	1,507,206
Deferred revenue	10,473	19,230
Total liabilities	2,421,799	1,649,798
Net assets:		
Unrestricted	2,406,160	2,339,698
Temporarily restricted	656,982	671,398
Total net assets	3,063,142	3,011,096
Total liabilities and net assets	\$ 5,484,941	\$ 4,660,894

See notes to financial statements.

## LUNgevity FOUNDATION

### STATEMENT OF ACTIVITIES

Years ended June 30,	2014			2013 (As restated)		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue:						
Contributions and grants	\$ 2,260,921	\$ 372,618	\$ 2,633,539	\$ 1,506,224		\$ 1,506,224
Special events and other fundraisers:						
Gross revenue	3,923,119		3,923,119	3,849,002	\$ 93,613	3,942,615
Expenses	(1,094,332)		(1,094,332)	(858,144)		(858,144)
Interest and dividends	1,043		1,043	998		998
Net realized loss on investments	(6,381)		(6,381)			
Loss on disposal of assets	(2,787)		(2,787)	(216)		(216)
Donated goods and services	259,343		259,343	339,161		339,161
Net assets released from restrictions:						
Satisfaction of purpose or time restrictions	387,034	(387,034)		73,749	(73,749)	
<b>Total revenue</b>	<b>5,727,960</b>	<b>(14,416)</b>	<b>5,713,544</b>	<b>4,910,774</b>	<b>19,864</b>	<b>4,930,638</b>
Expenses:						
Program services	4,207,916		4,207,916	3,532,827		3,532,827
Management and general	681,192		681,192	425,435		425,435
Fundraising	772,390		772,390	851,916		851,916
<b>Total expenses</b>	<b>5,661,498</b>		<b>5,661,498</b>	<b>4,810,178</b>		<b>4,810,178</b>
<b>Change in net assets</b>	<b>66,462</b>	<b>(14,416)</b>	<b>52,046</b>	<b>100,596</b>	<b>19,864</b>	<b>120,460</b>
Net assets:						
Beginning of year	2,339,698	671,398	3,011,096	2,239,102	651,534	2,890,636
<b>End of year</b>	<b>\$ 2,406,160</b>	<b>\$ 656,982</b>	<b>\$ 3,063,142</b>	<b>\$ 2,339,698</b>	<b>\$ 671,398</b>	<b>\$ 3,011,096</b>

*See notes to financial statements.*

## LUNgevity FOUNDATION

### STATEMENT OF FUNCTIONAL EXPENSES

Years ended June 30,	2014					2013 (As restated)				
	Program services	Management and general	Fundraising	Direct benefit to donors	Total	Program services	Management and general	Fundraising	Direct benefit to donors	Total
Grants	\$ 2,176,916				\$ 2,176,916	\$ 1,813,793				\$ 1,813,793
Advertising and marketing	166,592	\$ 7,117	\$ 46,635		220,344	107,461	\$ 5,212	\$ 38,696		151,369
Credit card and administrative fees	24,216	11,211	9,616		45,043	21,798	9,004	16,655		47,457
Donated goods and services		22,251		\$ 237,092	259,343	19,814			\$ 319,347	339,161
Dues and subscriptions	2,094	666	559		3,319	1,045	380	2,050		3,475
Employee training and conferences	2,589	108	2,411		5,108	2,601	189	1,570		4,360
Insurance	14,207	6,578	5,525		26,310	6,642	2,743	5,053		14,438
License and registration	4,491	13,563	1,497		19,551	6,211	9,313	2,070		17,594
Meals and entertainment	1,022	7,222	1,132		9,376	256	4,905	191		5,352
Meetings	129,174	2,678	1,095		132,947	84,978	521	960		86,459
Office supplies and equipment	16,096	5,356	6,671		28,123	15,560	3,337	9,460		28,357
Other	7,080	3,278	2,979		13,337	4,494	1,858	3,421		9,773
Other event expenses	24,388		8,322	302,145	334,855	15,411		5,735	326,552	347,698
Payroll taxes and employee benefits	147,349	126,931	120,700		394,980	105,952	97,707	96,965		300,624
Postage	25,406	2,235	33,808		61,449	23,870	1,584	24,405		49,859
Printing and design	66,959	3,394	82,926		153,279	63,999	2,056	58,907		124,962
Professional fees	235,098	20,597	5,352	242,820	503,867	267,839	14,442	36,929	18,780	337,990
Rent	58,807	27,226	22,869		108,902	41,762	17,250	31,776		90,788
Salaries	790,975	363,750	319,407		1,474,132	565,410	235,766	430,708		1,231,884
Support services	67,583				67,583	109,917				109,917
Telephone	26,979	12,490	13,239		52,708	21,117	8,722	16,068		45,907
Travel	113,288	39,457	33,261		186,006	140,980	6,923	31,565		179,468
Utilities	3,348	1,550	1,643		6,541	1,479	611	1,126		3,216
Venue rentals and fees				312,275	312,275				193,465	193,465
Website content licensing and other software fees	98,103	1,148	50,738		149,989	84,665	528	33,214		118,407
<b>Total expenses before depreciation and amortization</b>	<b>4,202,760</b>	<b>678,806</b>	<b>770,385</b>	<b>1,094,332</b>	<b>6,746,283</b>	<b>3,527,054</b>	<b>423,051</b>	<b>847,524</b>	<b>858,144</b>	<b>5,655,773</b>
Depreciation and amortization	5,156	2,386	2,005		9,547	5,773	2,384	4,392		12,549
Less expenses included with revenue on the statement of activities				(1,094,332)	(1,094,332)				(858,144)	(858,144)
<b>Total expenses</b>	<b>\$ 4,207,916</b>	<b>\$ 681,192</b>	<b>\$ 772,390</b>	<b>\$ -</b>	<b>\$ 5,661,498</b>	<b>\$ 3,532,827</b>	<b>\$ 425,435</b>	<b>\$ 851,916</b>	<b>\$ -</b>	<b>\$ 4,810,178</b>

See notes to financial statements.

# LUNGevity FOUNDATION

## STATEMENT OF CASH FLOWS

Years ended June 30,	2014	2013
Cash flows from operating activities:		
Change in net assets	\$ 52,046	\$ 120,460
Adjustments to reconcile change in net assets to cash provided by (used in) operating activities:		
Depreciation and amortization	9,547	12,549
Net realized loss on investments	6,381	
Contribution of corporate stock	(6,381)	
Loss on disposal of assets	2,787	216
(Increase) decrease in operating assets:		
Prepaid expenses	(4,279)	(92,175)
Accounts and grants receivable	(481,698)	(48,633)
Pledges receivable	14,416	(24,864)
Security deposits	(5,030)	11,264
Increase (decrease) in operating liabilities:		
Accounts payable	(6,911)	547
Accrued payroll and vacation liabilities	(58,814)	64,717
Grants payable	846,483	(992,794)
Deferred revenue	(8,757)	1,877
Cash provided by (used in) operating activities	359,790	(946,836)
Cash flows from investing activity:		
Purchase of property and equipment	(9,197)	(19,272)
Cash used in investing activity	(9,197)	(19,272)
Increase (decrease) in cash and cash equivalents	350,593	(966,108)
Cash and cash equivalents, beginning of year	3,104,843	4,070,951
Cash and cash equivalents, end of year	\$ 3,455,436	\$ 3,104,843

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 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, 2014 and 2013.

#### **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, money market funds held in investment accounts and sweep funds in a repurchase agreement that matures overnight or the next business day to be cash and cash equivalents.

#### 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 included unconditional promises to give at June 30, 2014 and 2013. 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,	2014	2013
Receivable due in less than one year	\$ 274,390	\$ 514,130
Receivable due in one to five years	417,290	168,761
Total pledges receivable, gross	691,680	682,891
Less discount to net present value	(34,698)	(11,493)
Total pledges receivable	\$ 656,982	\$ 671,398

Pledges receivable due in more than one year were discounted at a 2.85% rate for those originating in 2014. Pledges receivable originating prior to the year ended June 30, 2014 were discounted at a 2.25% rate. 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 the 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 8.

#### **Deferred revenue:**

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

#### **Advertising:**

Advertising costs were expensed when incurred. Total advertising costs were \$112,666 and \$77,217 for the years ended June 30, 2014 and 2013, respectively.

#### **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 accounts in the prior year's financial statements have been reclassified for comparative purposes to conform with the presentation in the current year's financial statements.

### **3. Property and equipment**

The components of property and equipment were as follows:

<u>June 30,</u>	<u>2014</u>	<u>2013</u>
Office equipment	\$ 12,450	\$ 13,717
Computer software and website	15,906	54,219
Event equipment	2,400	2,400
Leasehold improvements	23,654	20,254
	<b>54,410</b>	90,590
Less accumulated depreciation and amortization	<b>22,649</b>	55,692
Property and equipment, net	<b>\$ 31,761</b>	\$ 34,898

# LUNgevity FOUNDATION

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### 4. 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,	2014	2013
Board and staff travel	\$ 14,936	\$ 12,235
Event expenses	237,092	319,347
Other	7,315	1,963
Research services		5,616
Total	\$ 259,343	\$ 339,161

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.

### 5. Temporarily restricted net assets

Temporarily restricted net assets of \$656,982 and \$671,398 at June 30, 2014 and 2013, respectively, represent time restrictions on pledges receivable collectible within five years. Net assets of \$387,034 and \$73,749 were released from donor restrictions by satisfying time restrictions during the years ended June 30, 2014 and 2013, respectively.

# **LUNGevity FOUNDATION**

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

### **6. Related party transactions and concentration**

During the years ended June 30, 2014 and 2013, the Foundation received unconditional promises to give totaling \$552,450 and \$200,000, respectively, from related Board members, which was included in contributions and grants revenue on the statement of activities. Of the total unconditional promises to give, including both accounts and grants receivable and pledges receivable on the statement of financial position, approximately \$812,000 and \$750,000, respectively, at June 30, 2014 and 2013 was due from related Board members and will be received by the Foundation over the next five years.

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

The Foundation has adopted the requirements for accounting for uncertain tax positions and management has determined that the Foundation was not required to record a liability related to uncertain tax positions as of June 30, 2014. Federal and state tax and/or information returns of the Foundation are subject to examination by the IRS and state taxing authorities, generally for three years after the returns were filed. Management believes that the Foundation is no longer subject to income tax examinations by taxing authorities for years ended prior to June 30, 2011.

### **8. 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 \$1,646,483 for the year ending June 30, 2015 and \$896,483 for the year ending June 30, 2016.

# LUNgevity FOUNDATION

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### 9. Leases and other agreements

In March 2008, the Foundation entered into a five-year operating lease for office space. The monthly base rent was \$2,597 (escalating at 3% annually) plus taxes and assessments. The Foundation entered into a new lease commencing on March 1, 2013 for office space. The lease is for two years, with an option to extend the lease for an additional three years. The monthly base rent is \$4,575 (escalating at 3% annually) plus taxes and assessments. The Foundation also leases office space in Bethesda, Maryland. The original lease term was for five years ending in November 2016. The monthly base rent was \$3,997 (escalating at 3% annually). In June 2014, the Foundation amended this lease agreement to include additional office space within the same building. The lease term was extended through November 2019 and the monthly rent increased to \$4,241 (escalating at 5% annually). Effective June 1, 2014, the Foundation entered into a six-month sublease for a separate office space located in Bethesda. Rent expense was \$108,902 and \$90,788 for the years ended June 30, 2014 and 2013, respectively. In addition, the Foundation leases a photocopier under an operating lease to mature in November 2014. Future minimum rental payments under these leases are as follows:

Year ending June 30:	Amount
2015	\$ 167,464
2016	122,908
2017	129,053
2018	135,506
2019	142,281
Thereafter	60,484
Total	\$ 757,696

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. The agreement was for a term of one year and renews 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, 2014 and 2013 was \$67,583 and \$109,917, respectively and is included in support services on the statement of functional expenses.

# **LUNGevity FOUNDATION**

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

### **10. Retirement plans**

Through December 31, 2013, the Foundation had adopted a SIMPLE-IRA retirement plan (the Plan) covering all employees who met the eligibility requirements. The Foundation made 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 \$11,086 and \$18,607 for the years ended June 30, 2014 and 2013, respectively.

Effective January 1, 2014, the Foundation now sponsors a 401(k) plan (the Plan) covering all employees who meet the eligibility requirements. The Foundation makes matching contributions to the Plan equal to 100% of the first 3% of employee deferrals and 50% of the next 2% of employee deferrals, up to a maximum of 4% of employee compensation for a calendar year. Contributions to the Plan were \$23,175 for the year ended June 30, 2014.

### **11. 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 uninsured balance was approximately \$2,830,000 and \$2,820,000 as of June 30, 2014 and 2013, respectively. 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. Restatement of financial statements**

As a result of the Foundation's review of the allocation of functional expenses between classes for the year ended June 30, 2014 compared to the year ended June 30, 2013, it was brought to management's attention that an error occurred in the allocation of event expenses between program services and fundraising during the year ended June 30, 2013. The error was corrected by management and event expenses were reallocated using the correct formula between program services and fundraising. The effect was an overall increase in program services expense of \$197,862 and a decrease in fundraising expense of \$197,862. Accordingly, the Foundation restated its statement of functional expenses for the year ended June 30, 2013. The cumulative effect of this adjustment resulted in no change to net assets, as the total amount of expenses remained unchanged.



# **LUNGevity FOUNDATION**

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

### **13. Subsequent events**

Management of the Foundation has reviewed and evaluated subsequent events from June 30, 2014, the financial statement date, through September 23, 2014, 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.