

LUNGevity FOUNDATION

YEARS ENDED JUNE 30, 2016 AND 2015

LUNGevity FOUNDATION

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Independent Auditor's Report

Board of Directors
LUNGevity Foundation
Chicago, Illinois

We have audited the accompanying financial statements of LUNGevity Foundation (the Foundation), which comprise the statement of financial position as of June 30, 2016 and 2015 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, 2016 and 2015 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 27, 2016

LUNGevity FOUNDATION

STATEMENT OF FINANCIAL POSITION

June 30,	2016	2015
ASSETS		
Cash and cash equivalents	\$ 803,775	\$ 1,497,146
Prepaid expenses	173,680	207,925
Accounts and grants receivable	1,322,204	351,910
Pledges receivable	1,306,268	1,705,235
Security deposits	14,752	14,752
Property and equipment, net	29,952	38,807
Total assets	\$ 3,650,631	\$ 3,815,775
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 83,201	\$ 78,573
Accrued payroll and vacation liabilities	82,036	56,141
Grants payable	300,000	600,000
Deferred revenue	6,660	9,045
Total liabilities	471,897	743,759
Net assets:		
Unrestricted	437,963	1,366,781
Temporarily restricted	2,740,771	1,705,235
Total net assets	3,178,734	3,072,016
Total liabilities and net assets	\$ 3,650,631	\$ 3,815,775

See notes to financial statements.

LUNgevity FOUNDATION

STATEMENT OF ACTIVITIES

Years ended June 30,	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues:						
Contributions and grants	\$ 2,629,762	\$ 1,581,496	\$ 4,211,258	\$ 2,482,319	\$ 1,200,220	\$ 3,682,539
Special events and other fundraisers:						
Gross revenue	3,150,295		3,150,295	3,864,666		3,864,666
Expenses	(937,982)		(937,982)	(1,109,454)		(1,109,454)
Interest and dividends	497		497	681		681
Net realized gain on investments	3,206		3,206	3,327		3,327
Donated goods and services	147,798		147,798	294,773		294,773
Net assets released from restrictions:						
Satisfaction of purpose or time restrictions	545,960	(545,960)		151,967	(151,967)	
Total revenues	5,539,536	1,035,536	6,575,072	5,688,279	1,048,253	6,736,532
Expenses:						
Program services	4,961,462		4,961,462	5,044,038		5,044,038
Management and general	800,223		800,223	712,805		712,805
Fundraising	706,669		706,669	970,815		970,815
Total expenses	6,468,354		6,468,354	6,727,658		6,727,658
Change in net assets	(928,818)	1,035,536	106,718	(1,039,379)	1,048,253	8,874
Net assets:						
Beginning of year	1,366,781	1,705,235	3,072,016	2,406,160	656,982	3,063,142
End of year	\$ 437,963	\$ 2,740,771	\$ 3,178,734	\$ 1,366,781	\$ 1,705,235	\$ 3,072,016

See notes to financial statements.

LUNgevity FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2016	Program services				Management and general	Fundraising	Direct benefit to donors	Total
	Support services	Patient and Public Education	Research services	Total				
Grants		\$ 100,000	\$ 1,393,066	\$ 1,493,066				\$ 1,493,066
Advertising and marketing	\$ 10,058	145,605	2,707	158,371	\$ 5,837	\$ 26,012		190,220
Credit card and administrative fees	21,947	9,520	5,911	37,377	12,742	9,035		59,155
Donated goods and services	15,200			15,200	35,827		\$ 96,771	147,798
Dues and subscriptions	1,237	470	332	2,038	554	651		3,243
Employee training and conferences	858	19	1,871	2,747	25	1,888		4,660
Insurance	9,157	3,971	2,466	15,594	5,317	3,766		24,676
License and registration	4,107	19,169	1,106	24,382	2,385	7,485		34,252
Meals and entertainment	1,269	884	336	2,489	215	325		3,030
Meetings	230,888	108,809	46,817	386,514	1,402	993		388,909
Office supplies and equipment	5,681	3,791	1,425	10,897	3,072	3,576	3,489	21,034
Other	4,316	1,870	1,162	7,348	2,504	1,775		11,627
Other event expenses		16,218		16,218		5,406	309,504	331,127
Payroll taxes and employee benefits	59,373	220,457	95,594	375,424	127,998	90,659		594,081
Postage	4,941	27,576	994	33,511	1,825	9,139		44,475
Printing and design	7,621	116,889	1,533	126,042	3,304	42,682		172,028
Professional fees	9,922	374,741	7,561	392,224	5,761	5,213	376,430	779,628
Rent	72,820	31,576	19,612	124,008	42,279	29,946		196,234
Salaries	385,073	239,167	888,051	1,512,291	515,602	365,195		2,393,088
Telephone and internet	38,101	16,747	10,261	65,109	22,121	15,744		102,974
Travel	19,518	35,761	14,775	70,055	4,389	19,445	8,668	102,557
Utilities	2,138	927	576	3,641	1,241	879		5,761
Venue rentals and fees							143,120	143,120
Website content licensing and other software fees	6,293	70,911	1,384	78,587	2,983	64,842		146,412
Total expenses before depreciation and amortization	910,517	1,545,078	2,497,538	4,953,133	797,383	704,657	937,982	7,393,155
Depreciation and amortization	4,891	2,121	1,317	8,329	2,840	2,012		13,181
Total expenses	915,408	1,547,199	2,498,855	4,961,462	800,223	706,669	937,982	7,406,336
Less expenses included with revenues on the statement of activities							(937,982)	(937,982)
Total expenses included in the expense section of the statement of activities	\$ 915,408	\$ 1,547,199	\$ 2,498,855	\$ 4,961,462	\$ 800,223	\$ 706,669	\$ -	\$ 6,468,354

See notes to financial statements.

LUNgevity FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)

Year ended June 30, 2015	Program services				Management and general	Fundraising	Direct benefit to donors	Total
	Support services	Patient and Public Education	Research services	Total				
Grants			\$ 1,563,060	\$ 1,563,060				\$ 1,563,060
Advertising and marketing	\$ 5,021	\$ 188,690	4,302	198,013	\$ 5,449	\$ 60,361		263,823
Credit card and administrative fees	9,865	16,179	8,452	34,496	10,706	14,274		59,476
Donated goods and services	74,800			74,800	36,595		\$ 183,378	294,773
Dues and subscriptions	570	934	488	1,992	482	1,510		3,984
Employee training and conferences	594	974	508	2,076	118	985		3,179
Insurance	3,650	5,985	3,126	12,761	3,960	5,281		22,002
License and registration	1,947	7,386	1,668	11,001	2,113	4,320		17,434
Meals and entertainment	1,292	2,118	1,107	4,517	1,170	3,263		8,950
Meetings	284,537		67,310	351,847	5,243			357,090
Office supplies and equipment	5,781	13,414	4,951	24,146	5,935	10,247		40,328
Other	3,833	6,286	3,283	13,402	4,159	5,546		23,107
Other event expenses		13,930		13,930		6,154	325,668	345,752
Payroll taxes and employee benefits	94,224	154,514	80,717	329,455	109,818	109,818		549,091
Postage	4,969	22,288	1,532	28,789	1,422	20,951		51,162
Printing and design	2,121	148,762	1,683	152,566	2,131	63,869		218,566
Professional fees	23,288	433,282	33,950	490,520	25,270	33,694	351,113	900,597
Rent	25,319	41,519	21,689	88,527	27,474	36,632		152,633
Salaries	375,026	614,990	321,263	1,311,279	433,233	451,037		2,195,549
Support services	1,849	50,000		51,849				51,849
Telephone and internet	19,408	31,826	16,625	67,859	21,060	28,079		116,998
Travel	25,814	85,121	11,481	122,416	11,758	46,711	24,428	205,313
Utilities	997	1,634	854	3,485	1,081	1,442		6,008
Venue rentals and fees							224,867	224,867
Website content licensing and other software fees	1,813	81,373	1,175	84,361	1,489	63,789		149,639
Total expenses before depreciation and amortization	966,718	1,921,205	2,149,224	5,037,147	710,666	967,963	1,109,454	7,825,230
Depreciation and amortization	1,971	3,232	1,688	6,891	2,139	2,852		11,882
Total expenses	968,689	1,924,437	2,150,912	5,044,038	712,805	970,815	1,109,454	7,837,112
Less expenses included with revenues on the statement of activities							(1,109,454)	(1,109,454)
Total expenses included in the expense section of the statement of activities	\$ 968,689	\$ 1,924,437	\$ 2,150,912	\$ 5,044,038	\$ 712,805	\$ 970,815	\$ -	\$ 6,727,658

See notes to financial statements.

LUNGevity FOUNDATION

STATEMENT OF CASH FLOWS

Years ended June 30,	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ 106,718	\$ 8,874
Adjustments to reconcile change in net assets to cash used in operating activities:		
Depreciation and amortization	13,181	11,882
(Increase) decrease in operating assets:		
Prepaid expenses	34,245	(1,915)
Accounts and grants receivable	(970,294)	768,090
Pledges receivable	398,967	(1,048,253)
Increase (decrease) in operating liabilities:		
Accounts payable	4,628	53,824
Accrued payroll and vacation liabilities	25,895	23,253
Grants payable	(300,000)	(1,753,689)
Deferred revenue	(2,385)	(1,428)
Cash used in operating activities	(689,045)	(1,939,362)
Cash flows from investing activity:		
Purchase of property and equipment	(4,326)	(18,928)
Cash used in investing activity	(4,326)	(18,928)
Decrease in cash and cash equivalents	(693,371)	(1,958,290)
Cash and cash equivalents, beginning of year	1,497,146	3,455,436
Cash and cash equivalents, end of year	\$ 803,775	\$ 1,497,146

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 one of the largest national grassroots lung cancer network, as well as one of the largest online support community for those affected by lung cancer, according to management. 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 specific time period or purpose, see Note 5. The Foundation had no permanently restricted net assets at June 30, 2016 and 2015.

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. There were no permanently restricted contributions received for the years ended June 30, 2016 and 2015.

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, 2016 and 2015. Pledges due in more than one year were discounted using a risk-adjusted rate of return to reflect the present value of the receivables.

<u>June 30,</u>	<u>2016</u>	<u>2015</u>
Receivable due in less than one year	\$ 419,000	\$ 517,089
Receivable due in one to five years	992,965	1,315,000
Total pledges receivable, gross	1,411,965	1,832,089
Less discount to net present value	(105,697)	(126,854)
<u>Total pledges receivable</u>	<u>\$ 1,306,268</u>	<u>\$ 1,705,235</u>

Pledges receivable due in more than one year were discounted at a 2.85% rate for those originating in 2016 and 2015. 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 and amortization 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 \$139,161 and \$131,836 for the years ended June 30, 2016 and 2015, 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.

Contributed services:

The Foundation 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. With the exception of the services noted in the following paragraph, none of these amounts have been recognized in the statement of activities because the criteria for recognition have not been met.

LUNgevity FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued)

Contributed services: (continued)

Starting fiscal year ended June 30, 2015, management determined that the value of the donated services provided by the Foundation's Scientific Advisory Board (SAB) met the criteria for recognition and should be recorded as the professional services are essential to furthering the mission of the Foundation. For the fiscal years ended June 30, 2016 and 2015, \$15,200 and \$69,800, respectively, of professional research services were provided by the SAB and are included in donated goods and services on the statement of activities and the statement of functional expenses.

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. Property and equipment

The components of property and equipment were as follows:

June 30,	2016	2015
Office equipment	\$ 16,649	\$ 16,649
Computer software and website	20,232	15,906
Event equipment	2,400	2,400
Leasehold improvements	38,383	38,383
	77,664	73,338
Less accumulated depreciation and amortization	47,712	34,531
Property and equipment, net	\$ 29,952	\$ 38,807

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,	2016	2015
Board and staff travel	\$ 4,368	\$ 15,164
Event expenses	96,771	183,378
Other	31,459	21,431
Professional fees		5,000
Research services	15,200	69,800
Total	\$ 147,798	\$ 294,773

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

5. Temporarily restricted net assets

Temporarily restricted net assets of \$2,740,771 and \$1,705,235 at June 30, 2016 and 2015, respectively, represent time restrictions on grants, sponsorships and pledges receivable collectible within four years. Net assets of \$545,960 and \$151,967 were released from donor restrictions by satisfying time restrictions during the years ended June 30, 2016 and 2015, respectively.

6. Related party transactions and concentration

During the year ended June 30, 2015, the Foundation received unconditional promises to give totaling \$1,300,000 from related Board members, which was included in contributions and grants revenue on the statement of activities. Of the total unconditional promises to give, approximately \$943,000 and \$1,802,000 was included in pledges receivable as of June 30, 2016 and 2015, respectively and \$5,000 was included in grants receivable at June 30, 2016 on the statement of financial position. These unconditional promises to give due from Board members will be received by the Foundation over the next five years.

LUNgevity FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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.

8. Conditional grant commitments

The Foundation funds requests 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 \$2,153,004 for the year ending June 30, 2017 and \$1,393,554 for the year ending June 30, 2018.

9. Leases and other agreements

In March 2013, the Foundation entered into a two-year operating lease for office space. The monthly base rent was \$4,575 (escalating at 3% annually) plus taxes and assessments. The Foundation entered into a new lease commencing on April 1, 2015 for office space. The lease is for five years with an option to extend the lease for an additional three years. The monthly base rent is \$6,071 (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 with the monthly base rent for the original premises increasing to \$4,241 (escalating at 5% annually). Effective December 1, 2014, base rent for the additional office space was \$5,584 (escalating at 5% annually). Rent expense was \$196,234 and \$152,633 for the years ended June 30, 2016 and 2015, respectively.

LUNgevity FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. Leases and other agreements (continued)

Future minimum rental payments under these leases are as follows:

<u>Year ending June 30:</u>	<u>Amount</u>
2017	\$ 204,652
2018	213,372
2019	222,484
2020	121,979
<u>Total</u>	<u>\$ 762,487</u>

In February 2011, the Foundation entered into a website content license agreement with Global Resource for Advancing Cancer Education (GRACE) in which the Foundation published GRACE materials on its website. The agreement was for a term of one year and renewed 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, 2015 was \$50,000 and is included in support services on the statement of functional expenses. During the year ended June 30, 2015, the contract was terminated.

10. Retirement plan

Effective January 1, 2014, the Foundation began sponsoring 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 \$52,274 and \$45,989 for the years ended June 30, 2016 and 2015, respectively.

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 \$304,000 and \$713,000 as of June 30, 2016 and 2015, 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.

LUNGevity FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. Concentration of credit risk (continued)

Credit risk for accounts and grants receivable is concentrated as well with three corporations accounting for a total of \$1,150,750 or 42% of accounts and grants receivable as of June 30, 2016. Management believes that all receivables are collectible within one year and the Foundation is not exposed to any significant credit risk on grants and accounts receivable.

12. Subsequent events

Management of the Foundation has reviewed and evaluated subsequent events from June 30, 2016, the financial statement date, through September 27, 2016, 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.