

**PULMONARY  
FIBROSIS FOUNDATION**

*FINANCIAL  
STATEMENTS*

*FOR THE  
YEARS ENDED  
DECEMBER 31,  
2012 AND 2011*

**PULMONARY FIBROSIS FOUNDATION**

**TABLE OF CONTENTS**

---

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT.....	1-2
FINANCIAL STATEMENTS	
Statements of Financial Position.....	3-4
Statements of Activities.....	5-8
Statements of Functional Expenses.....	9-10
Statements of Cash Flows.....	11
Notes to Financial Statements.....	12-19



Certified Public Accountants and Advisers

## INDEPENDENT AUDITORS' REPORT

### Des Plaines Office

1665 Elk Boulevard  
Des Plaines, IL 60016  
847-824-4000  
fax: 847-824-4012  
www.SSandG.com

To the Board of Directors  
Pulmonary Fibrosis Foundation  
Chicago, Illinois

We have audited the accompanying financial statements of Pulmonary Fibrosis Foundation, (a nonprofit organization), which comprise the statements of financial position as of December 31, 2012 and 2011, 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 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.

### Auditors' 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 of 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 auditors' judgment, including the assessment of the risk 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.

Providing the  
services that  
bring solutions

Member of the AICPA  
Registered with the PCAOB  
Founding member of LEA Global

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pulmonary Fibrosis Foundation, as of December 31, 2012 and 2011, 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.

**Emphasis of Matter Regarding Restatement**

As discussed in Note H to the financial statements, certain errors resulting in an overstatement of amounts previously reported for cash and contributions as of December 31, 2011 were discovered by management of the Foundation during the current year. Accordingly, amounts reported for cash and contributions have been restated in the 2011 financial statements now presented, and an adjustment has been made to net assets as of December 31, 2011 to correct the error. Our opinion is not modified with respect to that matter.

*SS&G, Inc.*

June 17, 2013

**SS&G**

[www.SSandG.com](http://www.SSandG.com)

# PULMONARY FIBROSIS FOUNDATION

## STATEMENTS OF FINANCIAL POSITION

---

	DECEMBER 31,	
	<u>2012</u>	<u>2011</u> RESTATED
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 668,737	\$ 896,643
Certificates of deposit	1,391,083	1,381,364
Accounts receivable	29,508	-
Contributions receivable	261,631	102,900
Prepaid expenses	73,925	16,850
Interest receivable	<u>7,264</u>	<u>7,264</u>
<b>TOTAL CURRENT ASSETS</b>	<b>2,432,148</b>	<b>2,405,021</b>
<b>PROPERTY AND EQUIPMENT, net</b>	<b>19,777</b>	<b>12,298</b>
<b>OTHER ASSETS</b>		
Certificates of deposit	850,000	-
Investments	401,817	1,067,623
Deposits	<u>20,695</u>	<u>4,255</u>
<b>TOTAL OTHER ASSETS</b>	<b><u>1,272,512</u></b>	<b><u>1,071,878</u></b>
<b>TOTAL ASSETS</b>	<b><u>\$ 3,724,437</u></b>	<b><u>\$ 3,489,197</u></b>

*See accompanying notes to financial statements.*

# PULMONARY FIBROSIS FOUNDATION

## STATEMENTS OF FINANCIAL POSITION

---

	DECEMBER 31,	
	<u>2012</u>	<u>2011</u> RESTATED
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 41,550	\$ 100,552
Accrued liabilities	<u>22,082</u>	<u>51,764</u>
TOTAL CURRENT LIABILITIES	63,632	152,316
<b>NET ASSETS</b>		
Unrestricted	3,262,661	3,239,607
Temporarily restricted	<u>398,144</u>	<u>97,274</u>
TOTAL NET ASSETS	<u>3,660,805</u>	<u>3,336,881</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,724,437</u>	<u>\$ 3,489,197</u>

*See accompanying notes to financial statements.*

# PULMONARY FIBROSIS FOUNDATION

## STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>REVENUES, GAINS AND OTHER SUPPORT</b>			
Public support:			
Contributions	\$ 1,384,497	\$ 368,144	\$ 1,752,641
Contributions in kind	89,730	-	89,730
Private grants	-	-	-
Special events revenue	<u>509,764</u>	<u>-</u>	<u>509,764</u>
Total public support	1,983,991	368,144	2,352,135
Program service fees:			
Registration	<u>-</u>	<u>-</u>	<u>-</u>
Total program service fees	-	-	-
Other revenues:			
Sponsorship	265,817	30,000	295,817
Sale of goods	6,437	-	6,437
Miscellaneous	<u>101</u>	<u>-</u>	<u>101</u>
Total other revenues	272,355	30,000	302,355
Investment income:			
Interest and dividends	46,324	-	46,324
Loss on investments	<u>(45,913)</u>	<u>-</u>	<u>(45,913)</u>
Total investment income	<u>411</u>	<u>-</u>	<u>411</u>
Total revenues	2,256,757	398,144	2,654,901
Released from restriction	<u>97,274</u>	<u>(97,274)</u>	<u>-</u>
<b>TOTAL REVENUES, GAINS AND OTHER SUPPORT</b>	<b>2,354,031</b>	<b>300,870</b>	<b>2,654,901</b>

See accompanying notes to financial statements.

# PULMONARY FIBROSIS FOUNDATION

## STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>OPERATING EXPENSES</b>			
Program:			
Advocacy	\$ 84,938	\$ -	\$ 84,938
Physician and patient education	491,207	-	491,207
Research	501,331	-	501,331
Affiliates	-	-	-
Patient outreach	277,328	-	277,328
Registry	154,280	-	154,280
Summit	39,452	-	39,452
Shop PFF	24,961	-	24,961
Total program	1,573,497	-	1,573,497
Management and general	247,047	-	247,047
Fundraising	510,435	-	510,435
Total operating expenses	2,330,977	-	2,330,977
CHANGE IN NET ASSETS	23,054	300,870	323,924
NET ASSETS, beginning of year	3,239,607	97,274	3,336,881
NET ASSETS, end of year	\$ 3,262,661	\$ 398,144	\$ 3,660,805

See accompanying notes to financial statements.



# PULMONARY FIBROSIS FOUNDATION

## STATEMENT OF ACTIVITIES

	FOR THE YEAR ENDED DECEMBER 31, 2011		
	RESTATED		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>REVENUES, GAINS AND OTHER SUPPORT</b>			
Public support:			
Contributions	\$ 1,105,383	\$ 230,764	\$ 1,336,147
Contributions in kind	82,817	-	82,817
Private grants	55,000	20,000	75,000
Special events revenue	434,096	-	434,096
Total public support	<u>1,677,296</u>	<u>250,764</u>	<u>1,928,060</u>
Program service fees:			
Registration	70,555	-	70,555
Total program service fees	<u>70,555</u>	<u>-</u>	<u>70,555</u>
Other revenues:			
Sponsorship	164,300	-	164,300
Sale of goods	11,721	-	11,721
Miscellaneous	2,256	-	2,256
Total other revenues	<u>178,277</u>	<u>-</u>	<u>178,277</u>
Investment income:			
Interest and dividends	57,768	-	57,768
Unrealized loss on investments	(1,645)	-	(1,645)
Total investment loss	<u>56,123</u>	<u>-</u>	<u>56,123</u>
Total revenues	1,982,251	250,764	2,233,015
Released from restriction	<u>153,490</u>	<u>(153,490)</u>	<u>-</u>
<b>TOTAL REVENUES, GAINS AND OTHER SUPPORT</b>	2,135,741	97,274	2,233,015

*See accompanying notes to financial statements.*

# PULMONARY FIBROSIS FOUNDATION

## STATEMENT OF ACTIVITIES

	FOR THE YEAR ENDED DECEMBER 31, 2011		
	RESTATED		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>OPERATING EXPENSES</b>			
Program:			
Advocacy	\$ 122,676	\$ -	\$ 122,676
Physician and patient education	119,480	-	119,480
Research	364,254	-	364,254
Affiliates	25,745	-	25,745
Patient outreach	114,450	-	114,450
Registry	25,084	-	25,084
Summit	913,718	-	913,718
Shop PFF	-	-	-
Total program	<u>1,685,407</u>	-	<u>1,685,407</u>
Management and general	348,943	-	348,943
Fundraising	<u>391,323</u>	-	<u>391,323</u>
Total operating expenses	2,425,673	-	2,425,673
Loss on disposal of property and equipment	<u>(2,645)</u>	-	<u>(2,645)</u>
CHANGE IN NET ASSETS	(292,577)	97,274	(195,303)
NET ASSETS, beginning of year	<u>3,532,184</u>	-	<u>3,532,184</u>
NET ASSETS, end of year restated	<u>\$ 3,239,607</u>	<u>\$ 97,274</u>	<u>\$ 3,336,881</u>

*See accompanying notes to financial statements.*

PULMONARY FIBROSIS FOUNDATION  
STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2012

	PROGRAM											SUPPORT	
	Advocacy	Physician and Patient Education	Research	Affiliates	Patient Outreach	Registry	Summit	Shop PFF	Program Services Total	Management and General	Fundraising	Support Total	Organizational Total
Salaries and wages	\$ 53,324	\$ 174,400	\$ 114,796	\$ -	\$ 97,267	\$ 126,375	\$ 11,774	\$ 15,191	\$ 593,127	\$ 89,279	\$ 159,359	\$ 248,638	\$ 841,765
Employee benefits	-	-	-	-	-	-	-	-	-	6,129	-	6,129	6,129
Payroll taxes	3,660	11,971	7,879	-	6,676	8,674	788	1,043	40,691	(5,448)	22,401	16,953	57,644
Accounting	-	-	-	-	-	-	-	-	18,800	18,800	-	18,800	18,800
Advertising	40	23,699	584	-	59,750	360	14,711	-	99,144	7,766	3,340	11,106	110,250
Bank fees	-	80	40	-	-	-	-	-	120	751	195	946	1,066
Consulting	136	58,720	4,103	-	49,798	2,180	83	353	115,373	20,811	11,409	32,220	147,593
Contributions in-kind	-	-	-	-	-	-	-	-	986	8,135	-	8,135	9,121
Depreciation	-	1,545	1,600	-	-	-	-	-	3,145	789	1,849	2,638	5,783
Dues and subscriptions	-	-	-	-	-	-	-	-	-	524	-	524	524
Fundraising	-	-	-	-	-	-	-	-	334,837	-	-	-	334,837
Grants	-	17,102	317,735	-	-	-	-	-	20,887	10,252	8,044	18,296	39,183
Insurance	2,322	6,865	4,999	-	4,235	-	2,000	466	1,536	267	591	858	2,394
Internet service	171	505	368	-	311	-	147	34	920	16,680	7,117	23,797	24,717
Legal	-	280	640	-	-	-	-	-	10,224	16,526	868	17,394	27,617
Meetings and conferences	267	3,725	3,948	-	1,784	216	230	54	-	250	-	250	250
Miscellaneous	-	-	-	-	-	-	-	-	49	7,097	-	7,097	7,146
Moving expenses	-	49	-	-	-	-	-	-	23,602	7,017	7,940	14,957	38,559
Office supplies	2,187	6,735	5,860	-	3,989	-	4,343	488	-	-	3,815	3,815	3,815
Organization fees	-	-	-	-	-	-	-	-	68,871	5,157	17,799	22,956	91,827
Outside services	8,887	34,277	13,464	-	10,205	502	1,476	60	22,213	4,817	25,131	29,947	52,161
Postage	-	3,766	243	-	16,818	-	36	1,350	-	18,600	26,681	45,281	103,771
Printing	-	43,256	333	-	14,827	-	-	74	58,490	-	18,971	18,971	18,971
Processing fees	-	-	-	-	-	-	-	-	43,987	-	-	-	43,987
Physician and patient education	-	43,987	-	-	-	-	-	-	30,957	5,389	11,922	17,311	48,268
Rent	3,441	10,175	7,409	-	6,277	-	2,965	690	4,918	-	-	17,311	49,18
Shop PFF merchandise	-	-	-	-	-	-	-	-	4,918	-	-	-	4,918
Special events	-	-	-	-	-	-	-	-	173,922	-	173,922	173,922	173,922
Telephone	421	1,246	907	-	769	-	363	85	3,791	660	1,460	2,120	5,911
Travel	9,819	48,046	14,871	-	4,142	15,973	309	102	93,262	6,387	6,710	13,097	106,359
Utilities	263	777	566	-	480	-	227	53	2,366	412	911	1,323	3,689
<b>Total functional expenses</b>	<b>\$ 84,938</b>	<b>\$ 491,207</b>	<b>\$ 501,331</b>	<b>\$ -</b>	<b>\$ 277,328</b>	<b>\$ 154,280</b>	<b>\$ 39,452</b>	<b>\$ 24,961</b>	<b>\$ 1,573,497</b>	<b>\$ 247,047</b>	<b>\$ 510,435</b>	<b>\$ 757,482</b>	<b>\$ 2,330,977</b>

See accompanying notes to financial statements.

**PULMONARY FIBROSIS FOUNDATION**  
**STATEMENT OF FUNCTIONAL EXPENSES**

FOR THE YEAR ENDED DECEMBER 31, 2011

	PROGRAM										SUPPORT		
	Advocacy	Physician and Patient Education	Research	Affiliates	Patient Outreach	Registry	Summit	Shop PFF	Program Services Total	Management and General	Fundraising	Support Total	Organizational Total
Salaries and wages	\$ 50,295	\$ 61,172	\$ 66,462	\$ 16,396	\$ 74,973	\$ 15,019	\$ 209,305	\$ -	\$ 493,622	\$ 73,463	\$ 98,463	\$ 171,926	\$ 665,548
Employee benefits	2,584	1,057	-	-	4,875	2,379	3,965	-	14,860	10,811	10,015	20,826	35,686
Payroll taxes	3,782	4,600	4,998	1,233	5,637	1,129	14,859	-	36,238	4,931	7,404	12,335	48,573
Accounting	-	-	-	-	-	-	-	-	-	17,400	-	17,400	17,400
Advertising	1,625	2,596	775	-	405	-	30,419	-	35,820	19,949	7,409	27,358	63,178
Bank fees	-	-	11	-	-	-	-	-	11	2,258	-	2,258	2,269
Consulting	23,012	697	12,269	-	11,229	60	207,317	-	254,584	119,613	84,646	204,259	458,843
Contributions in-kind	2,830	2,952	2,515	405	2,436	413	25,628	-	37,179	14,607	8,649	23,256	60,435
Depreciation	-	-	821	-	-	-	-	-	821	1,596	-	1,596	2,417
Dues and subscriptions	75	527	900	-	-	-	43	-	1,545	620	968	1,588	3,133
Fundraising	-	-	-	-	500	-	-	-	500	-	-	-	500
Grants	5,000	-	245,715	5,700	-	-	3,000	-	259,415	-	-	10,249	259,415
Insurance	-	-	-	-	-	-	709	-	709	10,249	-	10,249	10,958
Internet service	143	174	189	47	214	43	563	-	1,373	187	281	468	1,841
Legal	180	-	6,980	-	-	-	520	-	7,680	9,460	2,876	12,336	20,016
Meetings and conferences	304	7,712	265	65	335	60	208,162	-	216,903	5,200	1,637	6,837	223,740
Miscellaneous	-	-	-	-	-	-	-	-	-	-	-	-	-
Moving expenses	-	-	-	-	-	-	-	-	-	3,738	-	3,738	3,738
Office supplies	5,563	2,127	2,237	535	2,447	541	18,302	-	31,752	7,652	7,348	15,000	46,752
Organization fees	-	-	-	-	-	-	-	-	-	10	5,860	5,870	5,870
Outside services	285	23	1,317	-	308	68	83,900	-	85,901	2,512	13,458	15,970	101,871
Postage	1,244	1,729	1,112	262	1,428	240	17,809	-	23,824	1,962	24,816	26,778	50,602
Printing	11,503	3,374	-	-	813	-	44,673	-	60,363	12,928	19,974	32,902	93,265
Processing fees	-	565	-	-	-	-	1,399	-	1,964	12,437	12,523	24,960	26,924
Physician and patient education	-	-	-	-	-	-	-	-	-	-	3,550	5,915	23,292
Rent	1,814	2,206	2,396	591	2,703	542	7,125	-	17,377	2,365	-	-	23,292
Shop PFF merchandise	-	-	-	-	-	-	-	-	-	-	69,220	69,220	69,220
Special events	-	-	-	-	-	-	-	-	-	-	925	1,199	5,618
Telephone	461	561	609	150	688	138	1,812	-	4,419	274	925	1,199	5,618
Travel	11,763	27,149	14,401	291	5,141	4,388	33,370	-	96,503	14,443	10,884	25,327	121,830
Utilities	213	259	282	70	318	64	838	-	2,044	278	417	695	2,739
<b>Total functional expenses</b>	<b>\$ 122,676</b>	<b>\$ 119,480</b>	<b>\$ 364,254</b>	<b>\$ 25,745</b>	<b>\$ 114,450</b>	<b>\$ 25,084</b>	<b>\$ 913,718</b>	<b>\$ -</b>	<b>\$ 1,685,407</b>	<b>\$ 348,943</b>	<b>\$ 391,323</b>	<b>\$ 740,266</b>	<b>\$ 2,425,673</b>

See accompanying notes to financial statements.

PULMONARY FIBROSIS FOUNDATION

STATEMENTS OF CASH FLOWS

	FOR THE YEARS ENDED DECEMBER 31,	
	<u>2012</u>	<u>2011</u> RESTATE
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 323,924	\$ (195,303)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Donated securities	(29,584)	(15,104)
Donated property and equipment	(16,070)	(7,528)
Depreciation	9,121	2,417
Loss on disposal of property and equipment	-	2,645
Loss on investments	45,913	1,645
Increase in:		
Accounts receivable	(29,508)	-
Contributions receivable	(158,731)	(102,900)
Prepaid expenses	(57,075)	(16,850)
Deposits	(16,440)	(679)
(Decrease) increase in:		
Accounts payable	(59,002)	77,405
Accrued expenses	(29,682)	51,764
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(17,134)</b>	<b>(202,488)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale or maturity of investments	2,041,606	1,347,847
Purchase of investments	(2,251,848)	(1,058,558)
Purchase of property and equipment	(530)	(4,450)
<b>NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES</b>	<b>(210,772)</b>	<b>284,839</b>
<b>NET (DECREASE) INCREASE IN CASH</b>	<b>(227,906)</b>	<b>82,351</b>
CASH, beginning of year	896,643	814,292
CASH, end of year	\$ 668,737	\$ 896,643

See accompanying notes to financial statements.

# PULMONARY FIBROSIS FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

---

### NOTE A – Summary of significant accounting policies

#### Nature of activities

The Pulmonary Fibrosis Foundation (the Organization) works to help find a cure for pulmonary fibrosis while improving the quality of life of those affected by the disease. The Organization provides educational lectures, workshops, funding for research and treatment of pulmonary fibrosis, and is in the planning stages of establishing a national registry of patients.

#### Basis of accounting

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as recommended in the American Institute of Certified Public Accountants' Audit and Accounting Guide for Not-for-Profit Organizations.

The net assets of the Organization are classified as follows:

Unrestricted, which represent the portion of expendable net assets that are available for operations.

Temporarily Restricted, which represent a portion of net assets restricted by the donors for medical research to find a cure for pulmonary fibrosis and patient education. Upon satisfaction of the restriction, a reclassification is made to unrestricted net assets.

#### Use of estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Investments

Investments in marketable securities and fixed income securities are reported at fair value based upon market quotations. Investments in certificates of deposit are reported at cost plus interest accrued which approximates market value. Donated investments are recorded at the fair value as of the date of contribution. Unrealized gains and losses are included in the accompanying statements of activities. Money market accounts that are held in a portfolio at the same institution as other investments are classified as investments.

#### Allowance for doubtful accounts

The Organization recognizes an allowance for losses on accounts receivable and contributions receivable in an amount equal to the estimated probable losses net of recoveries. The allowance is based on an analysis of historical bad debt experience, current receivables aging, and expected future write-offs, as well as an assessment of specific identifiable customer accounts considered at risk or uncollectible. The expense associated with the allowance for doubtful accounts is recognized as program expense. As of December 31, 2012 and 2011, management has determined that no allowance for doubtful accounts is deemed necessary.

# PULMONARY FIBROSIS FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

---

### NOTE A – Summary of significant accounting policies, continued

#### Property and equipment

Property and equipment are carried at cost if purchased or fair value if contributed. Depreciation is computed using the straight-line method over 3-5 years for computer hardware and software. The Organization follows the practice of capitalizing all expenditures for property and equipment in excess of \$500.

Maintenance and repairs are expensed as incurred. When property and equipment are retired or otherwise disposed of, the costs and related accumulated depreciation are removed from the respective accounts and any gain or loss on disposition is credited or charged to operations.

#### Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

#### Subsequent events

Subsequent events were evaluated through June 17, 2013, which is the date the financial statements were available to be issued.

# PULMONARY FIBROSIS FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

---

### NOTE A – Summary of significant accounting policies, continued

#### Income taxes

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, except for net income derived from unrelated business activities. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under IRC Section 509(a).

The Organization's income tax filings are subject to audit by various taxing authorities. The Organization's open audit periods are 2009 through the current year. In evaluating the Organization's activities, management believes its position of tax-exempt status is based on current facts and circumstances and there have been no uncertain positions taken related to recording income taxes. In the opinion of management there are no activities unrelated to the purpose of the Organization and therefore no tax is to be recognized.

It is the policy of the Organization to include in management and general expenses penalties and interest assessed by income taxing authorities. There are no penalties or interest from taxing authorities included in management and general expenses for the years ended December 31, 2012 and 2011.

#### Functional allocation of expenses

In the statements of functional expenses, the costs which are directly associated with a particular program or supporting service are allocated directly to that functional category. Additionally, certain costs have been allocated among the programs and supporting services benefited based on staff time devoted to the functional areas or other appropriate allocation methods determined by management.



# PULMONARY FIBROSIS FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

---

### NOTE B – Fair value measurements

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, provides the 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 the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization 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 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.

# PULMONARY FIBROSIS FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

### NOTE B – Fair value measurements, continued

Fair values of assets measured on a recurring basis were as follows:

	<u>Fair Value Measurements at December 31, 2012 Using</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Assets</u>				
Money market	\$ 2,719	\$ -	\$ -	\$ 2,719
Certificates of deposit	-	2,241,083	-	2,241,083
DFA emerging markets fund	4,654	-	-	4,654
Fixed income securities:				
U.S. Treasury bills	335,492	-	-	335,492
Equities:				
U.S. Common Stocks				
Healthcare (donated gift)	38,960	-	-	38,960
Technology (donated gift)	18,916	-	-	18,916
Investments (donated gift)	1,076	-	-	1,076
Total equities	58,952	-	-	58,952
	<u>\$ 401,817</u>	<u>\$ 2,241,083</u>	<u>\$ -</u>	<u>\$ 2,642,900</u>

	<u>Fair Value Measurements at December 31, 2011 Using</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Assets</u>				
Money market	\$ 269	\$ -	\$ -	\$ 269
Certificates of deposit	-	1,381,364	-	1,381,364
DFA emerging markets fund	4,017	-	-	4,017
Fixed income securities:				
U.S. Treasury bills	1,033,900	-	-	1,033,900
Equities:				
U.S. Common Stocks				
Healthcare (donated gift)	14,973	-	-	14,973
Technology (donated gift)	14,464	-	-	14,464
Total equities	29,437	-	-	29,437
	<u>\$ 1,067,623</u>	<u>\$ 1,381,364</u>	<u>\$ -</u>	<u>\$ 2,448,987</u>

# PULMONARY FIBROSIS FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

---

### NOTE C – Property and equipment

The costs of the Organization's property and equipment as of December 31 were as follows:

	<u>2012</u>	<u>2011</u>
Computer hardware and software	\$ 32,561	\$ 15,962
Less accumulated depreciation	<u>(12,784)</u>	<u>(3,664)</u>
	<u>\$ 19,777</u>	<u>\$ 12,298</u>

Depreciation expense for the years ended December 31, 2012 and 2011 was \$9,121 and \$2,417, respectively.

### NOTE D – Temporarily restricted net assets

The following items were temporarily restricted as of December 31 due to either use or time restrictions:

	<u>2012</u>	<u>2011</u>
International program	\$ 30,000	\$ -
Educational webinar	-	16,923
Research	261,395	80,981
Registry	<u>106,749</u>	<u>-</u>
	<u>\$ 398,144</u>	<u>\$ 97,274</u>

The following items were released from temporarily restricted net assets during the years ended December 31 due to meeting either use or time restrictions:

	<u>2012</u>	<u>2011</u>
Educational webinar	\$ 16,923	\$ 25,000
IPF Summit	-	10,498
Patient education	-	3,707
Research	<u>80,981</u>	<u>114,285</u>
	<u>\$ 97,274</u>	<u>\$ 153,490</u>

# PULMONARY FIBROSIS FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

---

### NOTE E – Contributions in kind

Donations of materials are recorded at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Conditional transfers of assets are recognized when the conditions upon which they depend are substantially met. During the years ended December 31, 2012 and 2011, the Organization received donated stock valued at \$29,584 and \$15,104, respectively, and donated software valued at \$16,070 and \$7,528, respectively, and donated materials valued at \$44,077 and \$0, respectively.

Donations of services are recorded if they create or enhance a non-financial asset or are specialized skills that would be purchased if they were not donated. During the years ended December 31, 2012 and 2011, the Organization received donated consulting services valued at \$0 and \$15,008, respectively, donated marketing services valued at \$0 and \$28,328, respectively, donated rent valued at \$0 and \$15,936, respectively, and other donated services valued at \$0 and \$1,163, respectively.

### NOTE F – Lease obligation and rental expense

The Organization entered into a lease for office space at 811 W. Evergreen, Chicago, IL, effective May 1, 2011 that expires June 30, 2015. The Organization voided the lease and signed a new lease for an office space at 230 East Ohio Street, Chicago, IL, effective November 9, 2012 that expires October 31, 2015. Rental expense on all leases for the years ended December 31, 2012 and 2011 was \$48,268 and \$23,292, respectively. The Organization is also liable for its proportionate share of property taxes, increased expenses, insurance, utilities, and repairs.

The estimated future minimum rental and lease obligation for the succeeding years under non-cancelable operating leases in effect as of December 31, 2012 are as follows:

<u>Year ended December 31,</u>	
2013	\$ 90,877
2014	95,900
2015	<u>91,333</u>
	<u>\$ 278,110</u>

# PULMONARY FIBROSIS FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

### NOTE G – Special events

Revenues and expenses from special events are shown at the gross amounts in the statements of activities. Gross revenue and expense for each event for the years ended December 31 was as follows:

	2012			2011		
	Revenue	Expense	Net	Revenue	Expense	Net
Signature Dinner	\$ 151,625	\$ 108,115	\$ 43,510	\$ -	\$ -	\$ -
Broadway Belts!	48,887	24,003	24,884	51,231	10,124	41,107
Peter DeVito Golf						
Memorial Event	5,000	-	5,000	25,000	-	25,000
Routine 5K	10,250	-	10,250	22,000	-	22,000
Other events	294,002	41,804	252,198	335,865	59,096	276,769
	<u>\$ 509,764</u>	<u>\$ 173,922</u>	<u>\$ 335,842</u>	<u>\$ 434,096</u>	<u>\$ 69,220</u>	<u>\$ 364,876</u>

### NOTE H – Restatement

The Organization recorded duplicate deposits in 2011, which affected both cash and the revenue accounts. As a result, the financial statements for the year ended December 31, 2011 were restated to reflect these changes in cash and contribution revenue. The restatement resulted in cash and net assets decreasing as a result of revenues decreasing by \$22,099.

	2011		2011
	Previously Reported	Adjustment	
Cash	\$ 918,742	\$ (22,099)	\$ 896,643
Contributions	1,358,246	(22,099)	1,336,147
Change in net assets	(173,204)	(22,099)	(195,303)
Net assets, end of year	3,358,980	(22,099)	3,336,881