

**PULMONARY
FIBROSIS FOUNDATION**

*Financial
statements*

*for the
years ended
December 31,
2013 and 2012*

PULMONARY FIBROSIS FOUNDATION

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Certified Public Accountants and Advisers

INDEPENDENT AUDITORS' REPORT

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To the Board of Directors of
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, 2013 and 2012, 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.

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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 Pulmonary Fibrosis Foundation, as of December 31, 2013 and 2012, 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.

SS&G, Inc.

September 29, 2014

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PULMONARY FIBROSIS FOUNDATION

STATEMENTS OF FINANCIAL POSITION

	DECEMBER 31,	
	2013	2012
ASSETS		
CURRENT ASSETS		
Cash	\$ 1,298,224	\$ 668,737
Certificates of deposit	1,398,735	1,391,083
Accounts receivable	34,888	29,508
Contributions receivable	119,511	261,631
Pledges receivable	80,000	-
Prepaid expenses	53,746	73,925
Interest receivable	-	7,264
	<u>2,985,104</u>	<u>2,432,148</u>
PROPERTY AND EQUIPMENT, net	20,145	19,777
OTHER ASSETS		
Certificates of deposit	853,406	850,000
Investments	87,753	401,817
Deposits	16,440	20,695
	<u>957,599</u>	<u>1,272,512</u>
TOTAL ASSETS	<u>\$ 3,962,848</u>	<u>\$ 3,724,437</u>

See accompanying notes to the financial statements.

PULMONARY FIBROSIS FOUNDATION

STATEMENTS OF FINANCIAL POSITION

	DECEMBER 31,	
	2013	2012
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 322,794	\$ 41,550
Accrued liabilities	9,443	22,082
Deferred rent	13,593	-
TOTAL LIABILITIES	345,830	63,632
NET ASSETS		
Unrestricted	3,056,520	3,262,661
Temporarily restricted	560,498	398,144
TOTAL NET ASSETS	3,617,018	3,660,805
TOTAL LIABILITIES AND NET ASSETS	\$ 3,962,848	\$ 3,724,437

See accompanying notes to the financial statements.

PULMONARY FIBROSIS FOUNDATION

STATEMENT OF ACTIVITIES

	FOR THE YEAR ENDED DECEMBER 31, 2013		
	Unrestricted	Temporarily Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT			
Public support:			
Contributions	\$ 1,656,165	\$ 83,653	\$ 1,739,818
Contributions in kind	56,219	-	56,219
Sponsorship	830,570	350,000	1,180,570
Private grants	1,000	-	1,000
Special events revenue	545,534	19,380	564,914
Total public support	3,089,488	453,033	3,542,521
Program service fees:			
Registration	118,860	-	118,860
Total program service fees	118,860	-	118,860
Other revenues:			
Sale of goods	15,495	-	15,495
Miscellaneous	1,070	-	1,070
Total other revenues	16,565	-	16,565
Investment income:			
Interest and dividends	12,753	-	12,753
Realized loss on investments	(10,492)	-	(10,492)
Unrealized gain on investments	16,182	-	16,182
Total investment income	18,443	-	18,443
Total revenues	3,243,356	453,033	3,696,389
Released from restriction	290,679	(290,679)	-
TOTAL REVENUES, GAINS AND OTHER SUPPORT	3,534,035	162,354	3,696,389

See accompanying notes to the financial statements.

PULMONARY FIBROSIS FOUNDATION

STATEMENT OF ACTIVITIES

	FOR THE YEAR ENDED DECEMBER 31, 2013		
	Unrestricted	Temporarily Restricted	Total
OPERATING EXPENSES			
Program:			
Advocacy	\$ 3,162	\$ -	\$ 3,162
Care Center Network	554,428	-	554,428
International program	285,364	-	285,364
Patient outreach	40,267	-	40,267
Physician and patient education	150,254	-	150,254
Registry	246,166	-	246,166
Research	516,269	-	516,269
Shop PFF	40,151	-	40,151
Summit	856,052	-	856,052
Support groups	15,614	-	15,614
Total program	<u>2,707,727</u>	<u>-</u>	<u>2,707,727</u>
Management and general	423,436	-	423,436
Fundraising	<u>609,013</u>	<u>-</u>	<u>609,013</u>
TOTAL OPERATING EXPENSES	3,740,176	-	3,740,176
CHANGE IN NET ASSETS	(206,141)	162,354	(43,787)
NET ASSETS, beginning of year	<u>3,262,661</u>	<u>398,144</u>	<u>3,660,805</u>
NET ASSETS, end of year	<u>\$ 3,056,520</u>	<u>\$ 560,498</u>	<u>\$ 3,617,018</u>

See accompanying notes to the financial statements.

PULMONARY FIBROSIS FOUNDATION

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2012

	Unrestricted	Temporarily Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT			
Public support:			
Contributions	\$ 1,384,497	\$ 368,144	\$ 1,752,641
Contributions in kind	89,730	-	89,730
Sponsorship	265,817	30,000	295,817
Private grants	-	-	-
Special events revenue	509,764	-	509,764
Total public support	2,249,808	398,144	2,647,952
Program service fees:			
Registration	-	-	-
Total program service fees	-	-	-
Other revenues:			
Sale of goods	6,437	-	6,437
Miscellaneous	101	-	101
Total other revenues	6,538	-	6,538
Investment income:			
Interest and dividends	46,324	-	46,324
Loss on investments	(45,913)	-	(45,913)
Total investment loss	411	-	411
Total revenues	2,256,757	398,144	2,654,901
Released from restriction	97,274	(97,274)	-
TOTAL REVENUES, GAINS AND OTHER SUPPORT	2,354,031	300,870	2,654,901

See accompanying notes to the financial statements.

PULMONARY FIBROSIS FOUNDATION

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2012

	Unrestricted	Temporarily Restricted	Total
OPERATING EXPENSES			
Program:			
Advocacy	\$ 84,938	\$ -	\$ 84,938
Care Center Network	154,280	-	154,280
International program	-	-	-
Patient outreach	277,328	-	277,328
Physician and patient education	491,206	-	491,206
Registry	-	-	-
Research	501,331	-	501,331
Shop PFF	24,961	-	24,961
Summit	39,452	-	39,452
Support groups	-	-	-
Total program	1,573,496	-	1,573,496
Management and general	247,046	-	247,046
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 restated	\$ 3,262,661	\$ 398,144	\$ 3,660,805

See accompanying notes to the financial statements.

PULMONARY FIBROSIS FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2013

	PROGRAM										SUPPORT				
	Advocacy	Care Center Network	International Program	Patient Outreach	Physician and Patient Education	Registry	Research	Shop PFF	Summit	Support Groups	Program Total	Management and General	Fundraising	Support Total	Organizational Total
Salaries and wages	\$ -	\$ 269,258	\$ 57,515	\$ 27,307	\$ 15,717	\$ 193,462	\$ 12,794	\$ 15,138	\$ 275,134	\$ 7,483	\$ 873,808	\$ 113,655	\$ 244,775	\$ 358,430	\$ 1,232,238
Payroll taxes	-	18,870	4,031	1,914	1,101	13,558	897	1,061	19,232	524	61,188	11,223	17,154	28,377	89,565
Accounting	-	-	-	-	-	-	-	-	-	-	-	17,800	-	17,800	17,800
Advertising	-	7,255	10,349	-	17,719	-	5,301	9	55,685	-	96,318	25,053	7,363	32,416	128,734
Bank fees	-	-	280	-	-	-	5	-	80	-	365	989	19	1,008	1,373
Consulting	-	87,721	44,848	2,905	4,629	629	1,542	12,518	38,562	24	193,378	69,792	12,155	81,947	275,325
Contributions in-kind	-	952	-	-	-	-	-	-	-	-	952	13,055	38,636	51,691	52,643
Depreciation	-	-	-	29	-	-	986	-	-	-	1,015	12,517	209	12,726	13,741
Dues and subscriptions	-	-	-	-	2,469	-	6,369	-	50	-	8,888	3,345	2,235	5,580	14,468
Fundraising	-	-	-	-	-	-	-	-	-	-	-	271	-	271	271
Grants	-	35,000	5,590	-	6,000	-	444,950	-	5,000	6,000	502,540	-	-	-	502,540
Insurance	-	16,376	3,498	1,661	956	11,766	778	921	17,354	455	53,765	6,775	14,887	21,662	75,427
Internet service	-	1,015	217	103	59	730	48	57	1,038	28	3,295	429	923	1,352	4,647
Legal	920	10,346	1,760	-	920	-	920	-	680	-	15,546	42,210	3,820	46,030	61,576
Meetings and conferences	-	5,120	6,537	173	3,748	1,162	3,464	91	248,235	45	268,575	18,936	88,532	107,468	376,043
Miscellaneous	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Moving expenses	-	-	-	-	-	-	-	-	-	-	-	14	-	14	14
Office supplies	-	5,767	1,394	661	1,324	4,116	1,225	450	9,562	159	24,658	2,103	6,660	8,763	33,421
Organization fees	-	-	-	-	-	-	-	-	-	-	-	3,415	1,902	5,317	5,317
Outside services	-	27,041	83,542	291	572	2,063	8,386	161	15,312	80	137,448	1,772	15,509	17,281	154,729
Postage	-	4,668	8,402	550	14,270	3,306	986	477	24,810	133	57,602	1,904	26,808	28,712	86,314
Printing	-	182	31,281	-	33,373	-	41	-	20,010	-	84,887	27,350	22,691	50,041	134,928
Processing fees	-	-	127	-	40	-	8	-	-	-	175	8	33,104	33,112	33,287
Physician and patient education	-	-	-	-	3,398	-	-	-	-	-	3,398	-	-	-	3,398
Rent	-	20,045	4,861	2,038	1,378	13,631	1,415	1,181	21,803	616	66,968	10,961	18,691	29,652	96,620
Shop PFF merchandise	-	-	1,234	30	2,378	-	-	7,930	1,317	-	12,889	-	194	194	13,083
Special events	-	-	1,547	-	-	-	7,906	-	9,669	-	19,122	-	30,792	30,792	49,914
Telephone	-	2,426	518	246	329	1,743	731	136	2,479	67	8,675	221	2,206	2,427	11,102
Travel	2,242	42,386	17,833	2,359	39,874	-	17,517	21	90,040	-	212,272	38,735	19,748	58,483	270,755
Utilities	-	-	-	-	-	-	-	-	-	-	-	903	-	903	903
Total functional expenses	\$ 3,162	\$ 554,428	\$ 285,364	\$ 40,267	\$ 150,254	\$ 246,166	\$ 516,269	\$ 40,151	\$ 856,052	\$ 15,614	\$ 2,707,727	\$ 423,436	\$ 609,013	\$ 1,032,449	\$ 3,740,176

See accompanying notes to the financial statements.

PULMONARY FIBROSIS FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2012

	PROGRAM										SUPPORT				
	Advocacy	Care Center Network	International Program	Patient Outreach	Physician and Patient Education	Registry	Research	Shop PFF	Summit	Support Groups	Program Total	Management and General	Fundraising	Support Total	Organizational Total
Salaries and wages	\$ 53,324	\$ 126,375	\$ -	\$ 97,267	\$ 174,400	\$ -	\$ 114,796	\$ 15,191	\$ 11,774	\$ -	\$ 593,127	\$ 89,279	\$ 159,359	\$ 248,638	\$ 841,765
Payroll taxes	3,660	8,674	-	6,676	11,971	-	7,879	1,043	788	-	40,691	681	22,401	23,082	63,773
Accounting	-	-	-	-	-	-	-	-	-	-	-	18,800	-	18,800	18,800
Advertising	40	360	-	59,750	23,699	-	584	-	14,711	-	99,144	7,766	3,340	11,106	110,250
Bank fees	-	-	-	-	80	-	40	-	-	-	120	751	195	946	1,066
Consulting	136	2,180	-	49,798	58,720	-	4,103	353	83	-	115,373	20,811	11,409	32,220	147,593
Contributions in-kind	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-	986	-	-	-	986	8,135	-	8,135	9,121
Dues and subscriptions	-	-	-	-	1,545	-	1,600	-	-	-	3,145	789	1,849	2,638	5,783
Fundraising	-	-	-	-	-	-	-	-	-	-	-	524	-	524	524
Grants	-	-	-	-	17,102	-	317,735	-	-	-	334,837	-	-	-	334,837
Insurance	2,322	-	-	4,235	6,865	-	4,999	466	2,000	-	20,887	10,252	8,044	18,296	39,183
Internet service	171	-	-	311	505	-	368	34	147	-	1,536	267	591	858	2,394
Legal	-	-	-	-	280	-	640	-	-	-	920	16,680	7,117	23,797	24,717
Meetings and conferences	267	216	-	1,784	3,725	-	3,948	54	230	-	10,224	16,526	868	17,394	27,618
Miscellaneous	-	-	-	-	-	-	-	-	-	-	-	250	-	250	250
Moving expenses	-	-	-	-	49	-	-	-	-	-	49	7,097	-	7,097	7,146
Office supplies	2,187	-	-	3,989	6,735	-	5,860	488	4,343	-	23,602	7,016	7,940	14,956	38,558
Organization fees	-	-	-	-	-	-	-	-	-	-	-	-	3,815	3,815	3,815
Outside services	8,887	502	-	10,205	34,277	-	13,464	60	1,476	-	68,871	5,157	17,799	22,956	91,827
Postage	-	-	-	16,818	3,766	-	243	1,350	36	-	22,213	4,817	25,131	29,948	52,161
Printing	-	-	-	14,827	43,256	-	333	74	-	-	58,490	18,600	26,681	45,281	103,771
Processing fees	-	-	-	-	-	-	-	-	-	-	-	-	18,971	18,971	18,971
Physician and patient education	-	-	-	-	43,987	-	-	-	-	-	43,987	-	-	-	43,987
Rent	3,441	-	-	6,277	10,175	-	7,409	690	2,965	-	30,957	5,389	11,922	17,311	48,268
Shop PFF merchandise	-	-	-	-	-	-	-	4,918	-	-	4,918	-	-	-	4,918
Special events	-	-	-	-	-	-	-	-	-	-	-	-	173,922	173,922	173,922
Telephone	421	-	-	769	1,246	-	907	85	363	-	3,791	660	1,460	2,120	5,911
Travel	9,819	15,973	-	4,142	48,046	-	14,871	102	309	-	93,262	6,387	6,710	13,097	106,359
Utilities	263	-	-	480	777	-	566	53	227	-	2,366	412	911	1,323	3,689
Total functional expenses	\$ 84,938	\$ 154,280	\$ -	\$ 277,328	\$ 491,206	\$ -	\$ 501,331	\$ 24,961	\$ 39,452	\$ -	\$ 1,573,496	\$ 247,046	\$ 510,435	\$ 757,481	\$ 2,330,977

See accompanying notes to the financial statements.

PULMONARY FIBROSIS FOUNDATION**STATEMENTS OF CASH FLOWS**

	FOR THE YEARS ENDED DECEMBER 31,	
	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (43,787)	\$ 323,924
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Donated property and equipment	-	(16,070)
Donated securities (Note G)	(3,575)	(29,584)
Depreciation	13,741	9,121
(Gain) loss on investments	(5,690)	45,913
(Increase) decrease in:		
Accounts receivable	(5,380)	(29,508)
Contributions receivable	142,120	(158,731)
Pledges receivable	(80,000)	-
Prepaid expenses	20,179	(57,075)
Accrued interest receivable	7,264	-
Deposits	4,255	(16,440)
Increase (decrease) in:		
Accounts payable	281,244	(59,002)
Accrued expenses	(12,639)	(29,682)
Deferred rent	13,593	-
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	331,325	(17,134)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale or maturity of investments	2,567,622	2,041,606
Purchases of investments	(2,255,351)	(2,251,848)
Purchases of property and equipment	(14,109)	(530)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	298,162	(210,772)
NET INCREASE (DECREASE) IN CASH	629,487	(227,906)
CASH, beginning of year	668,737	896,643
CASH, end of year	<u>\$ 1,298,224</u>	<u>\$ 668,737</u>

See accompanying notes to the 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. For the years ended December 31, 2013 and 2012, contributions and sponsorships accounted for 79% and 77% of total revenue, respectively.

Basis of presentation

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.

PULMONARY FIBROSIS FOUNDATION

NOTES TO FINANCIAL STATEMENTS

NOTE A – Summary of significant accounting policies, continued

Allowance for doubtful accounts, continued

As of December 31, 2013 and 2012, management has determined that no allowance for doubtful accounts is deemed necessary.

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.

Deferred rent

Rent expense on non-cancelable leases containing known future scheduled rent increases or free rent periods is recorded on a straight-line basis over the respective lease term. The lease term begins when the Organization has right to control the use of the leased property and includes the initial non-cancelable lease term plus any periods covered by renewal options that the Organization is reasonably assured of exercising. The difference between rent expense and rent paid is accounted for as deferred rent and is amortized over the lease term.

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.

Advertising

Advertising costs are expensed as incurred. Advertising expense was \$128,734 and \$110,250 for the years ended December 31, 2013 and 2012, respectively.

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).

PULMONARY FIBROSIS FOUNDATION

NOTES TO FINANCIAL STATEMENTS

NOTE A – Summary of significant accounting policies, continued

Income taxes, continued

The Organization's income tax filings are subject to audit by various taxing authorities. The Organization's open audit periods are 2010 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, 2013 and 2012.

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.

Reclassifications

Certain items in the financial statements as of and for the year ended December 31, 2012 have been reclassified for presentation purposes.

Subsequent events

Subsequent events were evaluated through September 29, 2014, which is the date the financial statements were available to be issued.

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.

PULMONARY FIBROSIS FOUNDATION

NOTES TO FINANCIAL STATEMENTS

NOTE B – Fair value measurements, continued

- 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. There are no changes in valuation methodologies used at December 31, 2013.

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

	<u>Fair Value Measurements at December 31, 2013</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Assets</u>				
Money market	\$ 3,246	\$ -	\$ -	\$ 3,246
Certificates of deposit	-	2,252,141	-	2,252,141
DFA emerging markets fund	4,387	-	-	4,387
<u>Equities:</u>				
U.S. Common Stocks				
Healthcare (donated gift)	49,534	-	-	49,534
Technology (donated gift)	25,446	-	-	25,446
Investments (donated gift)	2,490	-	-	2,490
Utilities (donated gift)	1,039	-	-	1,039
Services (donated gift)	1,611	-	-	1,611
Total equities	<u>80,120</u>	<u>-</u>	<u>-</u>	<u>80,120</u>
	<u>\$ 87,753</u>	<u>\$ 2,252,141</u>	<u>\$ -</u>	<u>\$ 2,339,894</u>

PULMONARY FIBROSIS FOUNDATION

NOTES TO FINANCIAL STATEMENTS

NOTE B – Fair value measurements, continued

	<u>Fair Value Measurements at December 31, 2012</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)	<u>1,076</u>	<u>-</u>	<u>-</u>	<u>1,076</u>
Total equities	<u>58,952</u>	<u>-</u>	<u>-</u>	<u>58,952</u>
	<u>\$ 401,817</u>	<u>\$ 2,241,083</u>	<u>\$ -</u>	<u>\$ 2,642,900</u>

NOTE C – Concentration of credit risk

The Organization maintains the majority of its cash at a several financial institutions. All deposit accounts at Federal Deposit Insurance Corporation (FDIC) insured institutions are insured up to \$250,000. At times during the year, the Organization's bank balances may have exceeded the federally insured limits; however, it has not experienced any losses with respect to its bank balances in excess of government provided insurance.

Investments in certificates of deposit at FDIC-insured institutions are insured up to \$250,000 per institution.

The Organization maintains reserve cash at a brokerage firm. This account is insured by the Securities Investor Protection Corporation up to \$500,000 including a maximum of \$250,000 for claims for cash and additional coverage is provided by the brokerage firm. At December 31, 2013 and 2012, the Organization has no uninsured cash investment balances at brokerage firms.

As of December 31, 2013 and 2012, 99% and 52% of total sponsorship income was from two donors, respectively. As of December 31, 2013 and 2012, 23% and 14% of the total contributions was from one donor, respectively.

PULMONARY FIBROSIS FOUNDATION

NOTES TO FINANCIAL STATEMENTS

NOTE D – Property and equipment

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

	<u>2013</u>	<u>2012</u>
Computer hardware and software	\$ 46,670	\$ 32,561
Less accumulated depreciation	<u>(26,525)</u>	<u>(12,784)</u>
	<u>\$ 20,145</u>	<u>\$ 19,777</u>

Depreciation expense for the years ended December 31, 2013 and 2012 was \$13,741 and \$9,121, respectively.

NOTE E – Conditional pledges receivable

The Organization is the recipient of a conditional pledge receivable over the next three years. No receivable has been recorded for the aforementioned pledge. This contribution is conditional because the Organization will only receive the contributions once several conditions set by the donor have been met. The contributions will be recorded as revenue in the periods in which the conditions have been met. The Organization received an unconditional initial payment of \$350,000 during the year ended December 31, 2013. As of December 31, 2013, the Organization had not met the first condition; therefore no pledge was recorded in the financial statements. Subsequent to December 31, 2013, the first condition was met and the Organization received \$1,050,000.

The Organization is also the recipient of a conditional pledge receivable over the next four years. The pledge is a \$0.10 to \$1 matching grant up to \$700,000 for funds raised by the Organization from other contributors to support the Care Center Network and Registry programs. The Organization has up to four years to raise funds to meet the pledged amount of \$700,000. The Organization recorded a matching pledge receivable of \$80,000 for funds raised during the year ended December 31, 2013.

NOTE F – Temporarily restricted net assets

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

	<u>2013</u>	<u>2012</u>
International program	\$ -	\$ 30,000
Research	180,498	261,395
Registry	<u>380,000</u>	<u>106,749</u>
	<u>\$ 560,498</u>	<u>\$ 398,144</u>

PULMONARY FIBROSIS FOUNDATION

NOTES TO FINANCIAL STATEMENTS

NOTE F – Temporarily restricted net assets, continued

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>2013</u>	<u>2012</u>
Educational webinar	\$ -	\$ 16,293
International program	30,000	-
Research	153,930	80,981
Registry	<u>106,749</u>	<u>-</u>
	<u>\$ 290,679</u>	<u>\$ 97,274</u>

NOTE G – 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, 2013 and 2012, the Organization received donated stock valued at \$3,575 and \$29,584, respectively, donated software valued at \$13,055 and \$16,070, respectively, and donated materials valued at \$39,589 and \$44,077, respectively. Donated software and materials are included in contribution in-kind expenses on the statement of functional expense.

NOTE H – 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. Due to growth, the Organization voided the lease and signed a new lease for expanded 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, 2013 and 2012 was \$96,620 and \$48,268, 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, 2013 are as follows:

<u>Year ended December 31,</u>	
2014	\$ 95,900
2015	<u>91,333</u>
	<u>\$ 187,233</u>

PULMONARY FIBROSIS FOUNDATION

NOTES TO FINANCIAL STATEMENTS

NOTE I – 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:

	2013		
	Revenue	Expense	Net
Signature Dinner	\$ 156,636	\$ 109,761	\$ 46,875
Broadway Belts!	64,625	43,895	20,730
Chandler/Solimano Golf	28,180	-	28,180
John Tighe Walk	26,098	-	26,098
Other events	289,375	6,635	282,740
	<u>\$ 564,914</u>	<u>\$ 160,291</u>	<u>\$ 404,623</u>

	2012		
	Revenue	Expense	Net
Signature Dinner	\$ 151,625	\$ 108,115	\$ 43,510
Broadway Belts!	48,887	24,003	24,884
Peter DeVito Golf Memorial Event	5,000	-	5,000
Rouine 5K	10,250	-	10,250
Other events	294,002	41,804	252,198
	<u>\$ 509,764</u>	<u>\$ 173,922</u>	<u>\$ 335,842</u>

NOTE J – Patient registry expenses

During the year ended December 31, 2013, the Organization initiated a program focusing on developing an electronic patient registry database. The Organization plans on launching the registry in the next fiscal year. In connection with the development of this program, the Organization has incurred expenses of \$246,166 from unrestricted cash reserves for the year ended December 31, 2013, thus creating an operating deficit. This deficit was planned by the Organization in connection with the Board of Directors authorizing up to \$500,000 of unrestricted funds to be used towards this endeavor.