

**LYNN SAGE CANCER
RESEARCH FOUNDATION**
Chicago, Illinois

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended
December 31, 2013 and 2012

LYNN SAGE CANCER RESEARCH FOUNDATION
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December 31, 2013 and 2012

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Lynn Sage Cancer Research Foundation
Chicago, Illinois

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We have audited the accompanying financial statements of Lynn Sage Cancer Research Foundation (the "Foundation") 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 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.

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 audits 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 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 the 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.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information contained on pages 14 and 15 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Oak Brook, Illinois
April 24, 2014

LYNN SAGE CANCER RESEARCH FOUNDATION

STATEMENTS OF FINANCIAL POSITION

As of December 31, 2013 and 2012

	2013	2012
Assets		
Cash and cash equivalents	\$ 704,198	\$ 647,203
Investments	3,178,238	2,683,996
Due from Northwestern Memorial Hospital	79,764	91,440
Prepaid expenses	19,530	4,000
TOTAL ASSETS	\$ 3,981,730	\$ 3,426,639
 Liabilities		
Accounts payable	\$ 1,076	\$ -
Unfulfilled pledges to Northwestern Memorial Hospital, at net present value		
Due within one year	1,245,000	1,076,500
Due thereafter	1,961,541	-
Total unfulfilled pledges to Northwestern Memorial Hospital	3,206,541	1,076,500
TOTAL LIABILITIES	3,207,617	1,076,500
 Net Assets		
Unrestricted	757,183	2,326,714
Temporarily restricted	16,930	23,425
TOTAL NET ASSETS	774,113	2,350,139
TOTAL LIABILITIES AND NET ASSETS	\$ 3,981,730	\$ 3,426,639

LYNN SAGE CANCER RESEARCH FOUNDATION

STATEMENTS OF ACTIVITIES

For the Years Ended December 31, 2013 and 2012

	2013			2012			
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total	% to Total
Contributions	\$ 649,961	\$ -	\$ 649,961	\$ 1,054,646	\$ -	\$ 1,054,646	63.1 %
Fundraising Events:							
Revenues	1,349,450	16,930	1,366,380	908,622	23,425	932,047	55.8
Less: Costs of direct benefit to donors	(380,897)	-	(380,897)	(333,518)	-	(333,518)	(20.0)
Net fundraising events revenue	968,553	16,930	985,483	575,104	23,425	598,529	35.8
Total contributions and net fundraising revenues	1,618,514	16,930	1,635,444	1,629,750	23,425	1,653,175	98.9
Investment income	5,686	-	5,686	17,646	-	17,646	1.1
Net assets released from restrictions	23,425	(23,425)	-	26,825	(26,825)	-	-
Total Net Public Support and Investment Income	1,647,625	(6,495)	1,641,130	1,674,221	(3,400)	1,670,821	100.0
Program and Supporting Services Expenses							
Program services							
Donation to Northwestern Memorial Hospital (net of accrual of present value discount)	3,128,966	-	3,128,966	786,396	-	786,396	47.1
Supporting Services							
Administrative expenses	88,190	-	88,190	64,013	-	64,013	3.8
Total Program and Supporting Services Expenses	3,217,156	-	3,217,156	850,409	-	850,409	50.9
Change in net assets	(1,569,531)	(6,495)	(1,576,026)	823,812	(3,400)	820,412	49.1 %
Net Assets, Beginning of Year	2,326,714	23,425	2,350,139	1,502,902	26,825	1,529,727	
Net Assets, End of Year	\$ 757,183	\$ 16,930	\$ 774,113	\$ 2,326,714	\$ 23,425	\$ 2,350,139	

See accompanying notes to financial statements.

LYNN SAGE CANCER RESEARCH FOUNDATION

STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Program Services		
Contributions and accrual of discount on prior years' pledges to Northwestern Memorial Hospital	<u>\$ 3,128,966</u>	<u>\$ 786,396</u>
Total Program Services	<u>3,128,966</u>	<u>786,396</u>
Supporting Services		
Accounting, audit and tax	21,335	20,015
Bank and credit cards fees	17,064	11,927
Communications	823	10
Gifts and awards	1,380	-
Insurance	2,695	2,695
Meetings	2,346	3,913
Miscellaneous	340	470
Office	4,358	7,754
Postage	450	3,308
Printing	24,411	8,460
Publications	<u>12,988</u>	<u>5,461</u>
Total Supporting Services	<u>88,190</u>	<u>64,013</u>
Total Functional Expenses	<u><u>\$ 3,217,156</u></u>	<u><u>\$ 850,409</u></u>

LYNN SAGE CANCER RESEARCH FOUNDATION

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash Flows From Operating Activities		
Change in net assets	\$ (1,576,026)	\$ 820,412
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Unrealized (gain) loss on investments	4,199	(4,494)
Amortization of unfulfilled pledge discount	48,957	23,321
(Increase) decrease in assets:		
Due from Northwestern Memorial Hospital	11,676	(80,996)
Prepaid expenses	(15,530)	5,350
Increase (decrease) in liabilities:		
Accounts payable	1,076	(1,236)
Unfulfilled pledges to Northwestern Memorial Hospital	<u>2,081,084</u>	<u>(764,000)</u>
Net cash flows from operating activities	<u>555,436</u>	<u>(1,643)</u>
Cash Flows From Investing Activities		
Purchases of investments	(510,192)	(513,067)
Sales/redemptions of investments	<u>11,751</u>	<u>264,331</u>
Net cash flows from investing activities	<u>(498,441)</u>	<u>(248,736)</u>
Net change in cash and cash equivalents	56,995	(250,379)
Cash and cash equivalents, beginning of year	<u>647,203</u>	<u>897,582</u>
Cash and cash equivalents, end of year	<u>\$ 704,198</u>	<u>\$ 647,203</u>

LYNN SAGE CANCER RESEARCH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 1 - NATURE OF OPERATIONS

Lynn Sage Cancer Research Foundation (the "Foundation") is an Illinois not-for-profit corporation incorporated on September 14, 1990 to support research in the areas of oncology and clinical oncology, and educational and counseling programs relating to the treatment and prevention of breast cancer. Funds are raised through contributions, gifts, fundraising events, and investment activities. Funds raised through these activities are applied to support breast cancer research by making grants to Northwestern Memorial Hospital and other publicly supported exempt organizations, as well as in direct educational outreach programs and awards to researchers.

Affiliation

During 2003, the Foundation entered into an "Affiliation Agreement" with Northwestern Memorial Foundation ("NMF"). The parties have agreed that NMF will be the sole organizational affiliate of the Lynn Sage Cancer Research Foundation. Both Northwestern Memorial Hospital ("NMH") and Feinberg School of Medicine at Northwestern University will remain as the Foundation's principal organizational beneficiaries through grants from the Foundation. On occasion, the Foundation may provide financial gifts or other assistance to cancer support organizations such as Y-Me.

In consideration for the Foundation's support, the principal breast health center at NMH shall continue to be named the "Lynn Sage Comprehensive Breast Center," and the breast health program at NMH shall continue to be named the "Lynn Sage Breast Program." The Northwestern University Medical School has agreed to name its breast cancer research program the "Lynn Sage Breast Cancer Research Program of Northwestern University Medical School." NMF will continue to provide administrative and fundraising support, at no cost, to the Foundation.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

These financial statements, which are presented on the accrual basis of accounting, have been prepared in accordance with standards relating to financial statements of not-for-profit organizations, to focus on the Foundation as a whole. These standards are for external financial reporting by not-for-profit organizations and require that resources be classified into distinct net asset categories according to externally (donor) imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Unrestricted Net Assets - Net assets not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that may or will be met by actions of the Foundation or the passage of time.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets would permit the Foundation to use all or part of the income earned on related investments for general or specific purposes. The Foundation did not hold any permanently restricted net assets at December 31, 2013 and 2012.

LYNN SAGE CANCER RESEARCH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Presentation (Continued)

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

Expiration of temporary restrictions on net assets (i.e. the donor-imposed stipulated purpose has been fulfilled or the stipulated time period has elapsed) are reported as reclassifications between applicable classes of net assets. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

Contributions, Fundraising Events and Contributed Stock

The standards relating to accounting for contributions received and contributions made, generally require all unconditional contributions made to a not-for-profit organization be measured at fair market value on the date received and be recognized as revenue or gains in the period received. The Foundation records contributions of stock at fair market value on the date of the gift.

Contributions are defined as contributions and revenues excluding Fundraising Events revenue. Fundraising Events revenue is defined as contributions and revenues generated as a result of a Foundation fundraising event.

In similar fashion, there is a requirement that unconditional promises made by a not-for-profit organization be recognized as contributions and payables in the period that the promise is made.

Cash and Cash Equivalents

The Foundation considers all short-term highly-liquid debt instruments with a maturity of three months or less, when acquired, to be cash equivalents.

The Foundation maintains cash balances which exceed the federally insured limit of \$250,000. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Investments

In accordance with the standards relating to accounting for certain investments held by not-for-profit organizations, the Foundation records investments at their fair or appraised values, and both realized and unrealized gains and losses are reflected in the statement of activities.

Fair value is based on the quoted market value at the end of the year. Appraised values, when necessary, are determined by management. At December 31, 2013 and 2012, all investments were based on quoted market values.

LYNN SAGE CANCER RESEARCH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising Costs

The Foundation conducts nondirect response advertising. These costs are expensed as incurred. For the years ended December 31, 2013 and 2012, the Foundation incurred \$31,912 and \$34,596, respectively, in advertising expenses.

Use of Estimates

The preparation of these financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, 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.

Reclassifications

For comparability, certain amounts have been reclassified to conform with classifications adopted in 2013. The reclassifications have no effect on reported amounts of net assets or change in net assets.

NOTE 3 - FAIR VALUE MEASUREMENTS

Fair Value Hierarchy - Fair value is defined in the accounting guidance as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the assets or liability in an orderly transaction between market participants at the measurement date. Under this guidance, a three-level hierarchy is used for fair value measurements which are based on the transparency of information, such as the pricing source, used in the valuation of an asset or liability as of the measurement date.

Financial instruments measured and reported at fair value are classified and disclosed in one of the following three categories.

- Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. This includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data.
- Level 3 - Inputs are unobservable for the asset or liability. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

LYNN SAGE CANCER RESEARCH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 3 - FAIR VALUE MEASUREMENTS (CONTINUED)

Valuation Techniques and Inputs

Level 1 - Level 1 assets include investments in fixed income securities for which quoted prices are readily available.

Level 2 - Level 2 assets include investments in certificates of deposit and money market accounts as they are based on quoted prices in markets that are not active.

There have been no changes in the techniques and inputs used as of December 31, 2013 and 2012.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

While the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following tables present information about the Foundation's assets measured at fair value on a recurring basis as of December 31, 2013 based upon the three-tier hierarchy:

	Total	Level 1	Level 2	Level 3
ASSETS				
Certificates of deposit	\$ 1,491,592	\$ -	\$ 1,491,592	\$ -
Money market account	1,686,646	-	1,686,646	-
Total	<u>\$ 3,178,238</u>	<u>\$ -</u>	<u>\$ 3,178,238</u>	<u>\$ -</u>

The following tables present information about the Foundation's assets measured at fair value on a recurring basis as of December 31, 2012 based upon the three-tier hierarchy:

	Total	Level 1	Level 2	Level 3
ASSETS				
Certificates of deposit	\$ 1,991,665	\$ -	\$ 1,991,665	\$ -
U.S. fixed income security	128,834	128,834	-	-
Money market account	563,497	-	563,497	-
Total	<u>\$ 2,683,996</u>	<u>\$ 128,834</u>	<u>\$ 2,555,162</u>	<u>\$ -</u>

LYNN SAGE CANCER RESEARCH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 4 - TAX EXEMPT STATUS

The Foundation has received notification that it qualifies as a tax-exempt organization under Section 501(c)(3) of the U.S. Internal Revenue Code and corresponding provisions of State law and, accordingly, is not subject to federal or state income taxes.

The Foundation follows the accounting standards for contingencies in evaluating uncertain tax positions. The guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. No liability has been recognized by the Foundation for uncertain tax positions as of December 31, 2013 and 2012. The Foundation's tax returns are subject to review and examination by federal and state authorities. The tax returns for the current year as well as fiscal years 2010 and thereafter are open to examination by federal and state authorities.

NOTE 5 - DUE FROM NORTHWESTERN MEMORIAL HOSPITAL

Amounts due from Northwestern Memorial Hospital are non-interest bearing, without fixed terms of repayment, and due on demand. These amounts arise from contributions and other fundraising cash received by the hospital on behalf of the Foundation.

LYNN SAGE CANCER RESEARCH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 6 - INVESTMENTS

A summary of investments at December 31, 2013 and 2012 is as follows:

	2013		
	Cost	Unrealized Appreciation (Depreciation)	Value
Certificates of deposit	\$ 1,494,000	\$ (2,408)	\$ 1,491,592
Money market account	1,686,646	-	1,686,646
	\$ 3,180,646	\$ (2,408)	\$ 3,178,238
	2012		
	Cost	Unrealized Appreciation (Depreciation)	Value
Certificates of deposit	\$ 1,992,000	\$ (335)	\$ 1,991,665
U.S. fixed income security	126,708	2,126	128,834
Money market account	563,497	-	563,497
	\$ 2,682,205	\$ 1,791	\$ 2,683,996

A summary of investment income at December 31, 2013 and 2012 is as follows:

	2013	2012
Interest	\$ 11,870	\$ 15,440
Unrealized gain (loss) on investments	(4,199)	4,494
Investment fees	(1,985)	(2,288)
	\$ 5,686	\$ 17,646

LYNN SAGE CANCER RESEARCH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 7 - PLEDGE COMMITMENTS

During 2009, the Foundation committed \$2,000,000 to the Northwestern Memorial Hospital to support the Hospital's breast cancer program and the Robert H. Lurie Comprehensive Cancer Center of Northwestern University. The commitment was payable in four installments of \$500,000 from 2010 through 2013. The final payment of \$500,000 was paid in 2013.

During 2011, the Foundation committed \$700,000 to Northwestern Memorial Hospital to support Dominick's Scholars. \$500,000 is payable in 2014.

During 2012, the Foundation committed \$76,500 to Northwestern Memorial Hospital for a Pathology fellowship. \$76,500 was paid in 2013.

During 2013, the Foundation committed \$3,000,000 to the Northwestern Memorial Hospital to support the Hospital's breast cancer research and education. \$285,000 was paid in 2013. \$465,000 of the commitment is payable in 2014. The remaining commitment is payable in three installments of \$750,000 from 2015 to 2017.

During 2013, the Foundation committed \$80,000 to Northwestern Memorial Foundation in support of a fellowship in Breast Cancer Pathology. This amount is payable in 2014.

During 2013, the Foundation committed \$102,425 to Northwestern Memorial Hospital in support of a grant for educational handbooks, fellowship, and international travel. This amount was paid in a single installment in 2013.

During 2013, the Foundation committed \$200,000 to the Northwestern Memorial Foundation in support of breast cancer research at Northwestern Memorial Hospital and the Robert H. Lurie Comprehensive Career Center of Northwestern University to support the Lynn Sage Dominick's Scholars. This amount is payable in 2014.

The following table summarizes grant activity for both 2013 and 2012:

	2013	2012
Outstanding obligation at beginning of year	\$ 1,076,500	\$ 1,817,179
Commitments made during the year	3,045,009	762,875
Payments during the year	(963,925)	(1,526,875)
Amortization of discount recognized	48,957	23,321
Obligation at End of Year	\$ 3,206,541	\$ 1,076,500

LYNN SAGE CANCER RESEARCH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 7 - PLEDGE COMMITMENTS (CONTINUED)

The Foundation has undertaken to make payments on its remaining 2013 and 2012 obligations to Northwestern Memorial Hospital on the following schedule, which is presented at the net present value of these obligations for 2013 and 2012:

Year Ended December 31,	2013	2012
2013	\$ -	\$ 1,076,500
2014	1,245,000	-
2015	750,000	-
2016	750,000	-
2017	750,000	-
Less: Discount to net present value at 5.60%	(288,459)	-
	<u>\$ 3,206,541</u>	<u>\$ 1,076,500</u>

NOTE 8 - SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events occurring through April 24, 2014, the date that the financial statements were available to be issued for events requiring recording or disclosure in the Foundation's financial statements.

SUPPLEMENTAL INFORMATION

LYNN SAGE CANCER RESEARCH FOUNDATION

SCHEDULES OF FUNDRAISING EVENTS

For the Years Ended December 31, 2013 and 2012

2013

	Gala and Dinner	Golf	Summer Soiree	Winter Event	Total
Revenues	\$ 1,116,432	\$ 127,890	\$ 36,277	\$ 85,781	\$ 1,366,380
Cost of direct benefit to donors	282,724	56,938	6,509	34,726	380,897
Net fundraising events revenue	\$ 833,708	\$ 70,952	\$ 29,768	\$ 51,055	\$ 985,483

2012

	Gala and Dinner	Golf	Summer Soiree	Winter Event	Total
Revenues	\$ 670,023	\$ 148,748	\$ 26,425	\$ 86,851	\$ 932,047
Cost of direct benefit to donors	228,467	66,975	5,575	32,501	333,518
Net fundraising events revenue	\$ 441,556	\$ 81,773	\$ 20,850	\$ 54,350	\$ 598,529

