

LYNN SAGE CANCER RESEARCH FOUNDATION

FINANCIAL STATEMENTS

DECEMBER 31, 2019

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Lynn Sage Cancer Research Foundation
Chicago, Illinois

We have audited the accompanying financial statements of LYNN SAGE CANCER RESEARCH FOUNDATION (an Illinois nonprofit organization), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities, functional expenses and cash flows for the year 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 LYNN SAGE CANCER RESEARCH FOUNDATION as of December 31, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Warady & Davis LLP

October 8, 2020

LYNN SAGE CANCER RESEARCH FOUNDATION

STATEMENT OF FINANCIAL POSITION

As of December 31, 2019

ASSETS

CURRENT ASSETS

| | | |
|---|----|-----------|
| Cash | \$ | 720,802 |
| Investments | | 2,587,877 |
| Due from Northwestern Memorial Hospital | | 364,088 |

TOTAL ASSETS \$ 3,672,767

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

| | | |
|------------------|----|-------|
| Accounts Payable | \$ | 2,453 |
|------------------|----|-------|

NET ASSETS

| | | |
|---------------------------|--|-----------|
| Without Donor Restriction | | 3,670,314 |
|---------------------------|--|-----------|

TOTAL LIABILITIES AND NET ASSETS \$ 3,672,767

LYNN SAGE CANCER RESEARCH FOUNDATION

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2019

| | Without Donor Restriction |
|------------------------------------|------------------------------|
| SUPPORT REVENUES | |
| Contributions | \$ 688,879 |
| Special Events | 796,545 |
| Total Support Revenues | 1,485,424 |
| OTHER REVENUE | |
| Investment Income, net | 375,986 |
| Total Revenues | 1,861,410 |
| FUNCTIONAL EXPENSES | |
| Program Services | 682,177 |
| Management and General | 94,269 |
| Fundraising | 74,854 |
| Direct Expenses for Special Events | 284,385 |
| Total Expenses | 1,135,685 |
| CHANGE IN NET ASSETS | 725,725 |
| Net Assets, Beginning | 2,944,589 |
| NET ASSETS, ENDING | \$ 3,670,314 |

LYNN SAGE CANCER RESEARCH FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2019

| | Program Services | Supporting Services | | | Total |
|----------------------------|---------------------|---------------------------|-------------|---------------------------------------|--------------|
| | | Management and General | Fundraising | Direct Expenses for Special Events | |
| Auction | \$ — | \$ — | \$ — | \$ 6,502 | \$ 6,502 |
| Audiovisual | — | — | — | 26,286 | 26,286 |
| Bank and Credit Cards Fees | — | 620 | 27,834 | — | 28,454 |
| Communications | — | 251 | — | — | 251 |
| Decorations | — | — | — | 18,800 | 18,800 |
| Design Services | — | — | 15,481 | — | 15,481 |
| Entertainment | — | — | — | 91,542 | 91,542 |
| Food and Beverage | — | — | — | 823 | 823 |
| Gifts and Awards | — | — | 1,535 | — | 1,535 |
| Grants and Donations | 680,573 | — | — | — | 680,573 |
| Insurance | — | 3,526 | — | — | 3,526 |
| Licenses and Permits | — | 10,900 | 2,445 | — | 13,345 |
| Meetings | — | 6,387 | — | — | 6,387 |
| Miscellaneous | — | 2,028 | 700 | — | 2,728 |
| Office | — | 22 | 114 | — | 136 |
| Photography | — | — | — | 919 | 919 |
| Postage | — | 1,101 | 145 | — | 1,246 |
| Printing | — | 1,602 | 5,792 | — | 7,394 |
| Professional Fees | — | 43,077 | — | — | 43,077 |
| Public Relations and Media | — | 22,000 | 18,134 | — | 40,134 |
| Raffle | — | — | — | 2,120 | 2,120 |
| Transportation | — | 1,685 | — | — | 1,685 |
| Venue | — | — | — | 137,393 | 137,393 |
| Website | 1,604 | 1,070 | 2,674 | — | 5,348 |
| | \$ 682,177 | \$ 94,269 | \$ 74,854 | \$ 284,385 | \$ 1,135,685 |

See accompanying notes.

LYNN SAGE CANCER RESEARCH FOUNDATION

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2019

| | |
|---|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Change in Net Assets | \$ 725,725 |
| Adjustments to Reconcile Change in Net Assets to | |
| Net Cash Provided by Operating Activities | |
| Net Realized and Unrealized Gains on Investments | (275,043) |
| Increase in Assets | |
| Due from Northwestern Memorial Hospital | (275,305) |
| Decrease in Liabilities | |
| Accounts Payable | (6,094) |
| Total Adjustments | (556,442) |
| Net Cash Provided by Operating Activities | 169,283 |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Purchases of Investments | (187,670) |
| Reinvested Dividends | (99,985) |
| Net Change in Money Market Funds Held in Investment Portfolio | (185,670) |
| Proceeds from Sales and Redemptions of Investments | 378,000 |
| Net Cash Used by Investing Activities | (95,325) |
| NET INCREASE IN CASH | 73,958 |
| Cash, Beginning | 646,844 |
| CASH, ENDING | \$ 720,802 |

NOTES TO FINANCIAL STATEMENTS

NATURE OF ORGANIZATION

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. Significant funding sources include contributions, gifts and grants, fundraising events and investment activities, all of which are applied to support breast cancer research through grants made to Northwestern Memorial Hospital ("NMH") and other publicly supported exempt organizations, as well as through direct educational outreach programs and awards to researchers.

The Foundation is affiliated with Northwestern Memorial Foundation ("NMF"). The parties had agreed that NMF will be the sole organizational affiliate of the Lynn Sage Cancer Research Foundation. Both NMH and Feinberg School of Medicine at Northwestern University have been 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 was named the "Lynn Sage Comprehensive Breast Center," and the breast health program at NMH was named the "Lynn Sage Breast Program." The Northwestern University Medical School also agreed to name its breast cancer research program the "Lynn Sage Breast Cancer Research Program of Northwestern University Medical School." NMF has provided administrative and fundraising support, at no cost, to the Foundation. On January 31, 2020, the Foundation terminated its agreement with NMF, but will continue to include them as one of its grantees NMF will no longer provide support services to the Foundation but will continue to use the "Lynn Sage" name for its cancer research program if certain conditions are met (see Note 5).

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies is presented to assist in understanding the Foundation's financial statements. The financial statements and notes are representations of management who is responsible for their integrity and objectivity. These accounting policies conform to U.S. generally accepted accounting principles (GAAP) and have been consistently applied in the preparation of the financial statements.

BASIS OF ACCOUNTING

The financial statements of the Foundation have been prepared on the accrual basis of accounting in accordance with GAAP.

FINANCIAL STATEMENT PRESENTATION

Financial statement presentation follows the requirements of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (the FASB Codification) topic related to "Financial Statements of Not-for-Profit Organizations." This guidance requires the Foundation to report information regarding its financial position and activities, based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Net assets without donor restriction – Net assets that are not subject to donor-imposed stipulations plus those resources for which donor-imposed stipulations have been satisfied. Net assets without donor restriction may otherwise be designated for specific purposes by action of the Board of Directors.

NOTES TO FINANCIAL STATEMENTS

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FINANCIAL STATEMENT PRESENTATION (Continued)

Net assets with donor restriction – Net assets whose use by the Foundation is subject to donor-imposed stipulations that could be fulfilled either by actions of the Foundation, pursuant to those stipulations and/or that expire by the passage of time. Net assets with donor restriction are reclassified to net assets without donor restriction when the restrictions have been met and presented on the statement of activities as net assets released from restrictions.

Additionally, the Foundation can have net assets subject to donor-imposed stipulations that the resources be maintained permanently by the Foundation. Investment income, including interest, dividends and realized and unrealized gains and losses, would be classified as net assets with donor restriction until those amounts are appropriated for expenditure by the Foundation's Board of Directors in a manner consistent with the standard of prudence prescribed by the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

As of and for the year ended December 31, 2019, the Foundation had no net assets with donor restriction and therefore, no net assets released from restrictions.

Revenues are reported as increases in net assets without donor restriction unless use of the related asset is limited by donor-imposed stipulations. Expenses are reported as decreases in net assets without donor restriction. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restriction unless their use is restricted by explicit donor stipulation or by law.

RECOGNITION OF SUPPORT, RECEIVABLES AND REVENUES

The Foundation accounts for contributions received and unconditional promises to give under the provisions of the FASB Codification topic related to contributions made and received. Contributions are recognized as support revenue when received. Unconditional promises to give are recognized when received at the estimated present value of future cash flows, net of allowances. Contributions received are recorded as support revenue with or without donor restriction, depending on the existence and/or nature of any donor stipulations. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restriction would be reclassified to net assets without donor restriction and reported in the statement of activities as net assets released from restrictions.

Similarly, an unconditional promise made by a not-for-profit organization is recognized as grant expense and grants payable in the period that the promise is made.

DONATED GOODS AND SERVICES

The Foundation records contributions of stock at fair value on the date of the gift.

Donated services are recognized as revenues at their estimated fair value when they create or enhance nonfinancial assets or they require specialized skills which would need to be purchased if they were not donated. The Foundation received no donated services in 2019 that meet the criteria for recognition.

A number of unpaid volunteers and members of the Board of Directors donate their time to ensure success of the Foundation's activities. The value of these services is not reflected in these financial statements since they do not meet the criteria for recognition under the FASB Codification topic related to accounting for contributions received and made.

NOTES TO FINANCIAL STATEMENTS

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

CASH EQUIVALENTS

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

INVESTMENTS

The Foundation follows the provisions of the FASB Codification topic related to accounting for investments held by not-for-profit organizations. This standard requires investments in marketable securities be accounted for at fair value.

Interest income is recognized when earned. Dividend income is recognized on the ex-dividend date. Realized gains and losses are the differences between the proceeds received and the cost of investments sold and unrealized gains and losses are the differences between the fair value and cost of investments held.

USE OF ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing various programs and other activities are presented on a functional basis in the statement of activities. Accordingly, certain expenses have been allocated among the programs and supporting services benefited, based on direct charges with the exception of the website that was allocated based on usage.

CONCENTRATIONS OF RISK

The Foundation's cash balances, at times, may exceed federally-insured limits, however it has not experienced any losses in these accounts and management believes it is not exposed to any significant credit risk on cash.

Investments are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with investments, it is at least reasonably possible that changes in the fair value of investments will occur in the near term and that such changes could materially affect the financial statements.

The Foundation has not experienced any losses in the due from NMH account and management believes it is not exposed to any significant credit risk on due from NMH.

NOTES TO FINANCIAL STATEMENTS

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

TAX STATUS

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and applicable State law. To the extent unrelated business income exists, the Foundation would be subject to unrelated business income tax. The Foundation follows the guidance in the FASB Codification topic related to uncertainty in income taxes, which prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements uncertain tax positions that the Foundation has taken or expects to take in its tax returns. Under the guidance, the Foundation may recognize the tax benefit from an uncertain tax position only if it is "more likely than not" that it is sustainable, based on its technical merits. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with a taxing authority having full knowledge of all relevant information. Management believes the Foundation has appropriate support for the positions taken on its returns.

NEW ACCOUNTING PRONOUNCEMENTS

In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09 (Topic 606): *Revenue from Contracts with Customers*, which supersedes the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods. The ASU was effective for annual reporting periods beginning after December 15, 2018, but was extended until years beginning after December 15, 2019. The Foundation early adopted the ASU effective January 1, 2019. Management determined there was no cumulative effect of applying the new standard to the opening balance of net assets without donor restriction and there is no impact to change in net assets without donor restriction currently or in the future.

The adoption of the ASU did not have a significant impact on the Foundation's financial position, results of activities, or cash flows. A substantial portion of the Foundation's revenues relates to contributions, therefore the ASU would only apply to special events revenue.

Special events revenue, which includes registration fees, ticket purchases, sponsorships and purchases of auction items or raffle tickets, is recorded as revenue when the event occurs, equal to the amounts received. If received in advance, the direct benefits to donors are deferred until the event occurs while the contribution portion, the excess paid over the direct benefit to donors is recorded immediately. Based on the Foundation's evaluation of its contracts with customers, the timing and amount of revenues recognized previously is consistent with how revenues are recognized under the new standard. No changes were required to previously reported revenues as a result of the adoption.

NOTES TO FINANCIAL STATEMENTS

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

NEW ACCOUNTING PRONOUNCEMENTS (Continued)

In June 2018, the Financial Accounting Standards Board (FASB) issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. The new guidance applies to all entities that receive or make contributions and clarifies the definition of an exchange transaction. The criteria for evaluating whether contributions are unconditional (and thus recognized immediately as revenue) or conditional (for which revenue recognition is delayed until the condition is met) have been clarified. The focus is whether a gift or grant agreement both (1) specifies a “barrier” that the recipient must overcome to be entitled to the resources and (2) releases the donor from its obligation to transfer resources if the barrier is not achieved. An agreement that includes both is a conditional contribution. The Organization adopted the ASU commencing January 1, 2019.

NOTE 2—LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, are comprised of the following at December 31, 2019:

| | | |
|-------------------------------------|-----------|------------------|
| Cash..... | \$ | 720,802 |
| Investments..... | | 2,587,877 |
| Due from Northwestern Hospital..... | | 364,088 |
| | <u>\$</u> | <u>3,672,767</u> |

The Foundation has no net assets with donor restrictions, nor any board-designated net assets, so the entire amount of its liquid asset balance at December 31, 2019 are available for use. The Foundation has sufficient liquid assets to meet at least one year of operating expenses.

NOTE 3—INVESTMENTS AND FAIR VALUE MEASUREMENTS

The FASB Codification provides a framework for measuring fair value using a 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 are described below:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

NOTES TO FINANCIAL STATEMENTS

NOTE 3—INVESTMENTS AND 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's 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.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2019.

Level 1 Fair Value Measurements

The fair value of investments in money market funds, mutual funds and exchange-traded funds are based on quoted market prices in active markets for identical assets.

Level 2 Fair Value Measurements

The fair value of investments in certificates of deposit is estimated using various techniques including a matrix or model pricing method, which may consider recently executed transactions in securities of the issuer or comparable issuers, market price quotations (where observable) and fundamental data relating to the issuer.

Level 3 Fair Value Measurements

The Foundation has no Level 3 fair value measurements.

NOTES TO FINANCIAL STATEMENTS

NOTE 3—INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

Fair value of investments measured on a recurring basis at December 31, 2019 is as follows:

| | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|--|---------------------|---|---|--|
| Money Market Funds..... | \$ 192,333 | \$ 192,333 | \$ — | \$ — |
| Certificates of Deposit..... | 381,608 | — | 381,608 | — |
| Fixed Income Mutual Funds | 100,340 | 100,340 | — | — |
| U.S. Equity Mutual Funds | 1,264,220 | 1,264,220 | — | — |
| International Equity Mutual Funds | 374,683 | 374,683 | — | — |
| Exchange Traded Funds | 274,693 | 274,693 | — | — |
| Total Investments | <u>\$ 2,587,877</u> | <u>\$ 2,206,269</u> | <u>\$ 381,608</u> | <u>\$ —</u> |

NOTE 4—DUE FROM NORTHWESTERN MEMORIAL HOSPITAL

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

NOTE 5—GRANT COMMITMENTS

In June 2020, the Foundation entered into an agreement with NMF for the naming rights of NMF's principal breast cancer screening and diagnostic center, currently known as Lynn Sage Comprehensive Breast Center (the Center). In exchange for the naming rights, the Foundation has committed to support NMF, its other Affiliates, and Northwestern University's Feinberg School of Medicine, in the minimum aggregate amount of \$300,000 and 55% of the total gifts, grants, and contributions the Foundation raises each year, for a period of twenty-five years commencing January 1, 2020. After this period the Foundation has extension rights and first refusal rights to the naming of the Center, should another offer be made at that time to NMF by a third party, in which case the Foundation can retain the rights by meeting the terms of that offer. The entire period is divided into five consecutive five-year review periods. No later than three months after each review period, the Foundation has to demonstrate that it met these and other conditions specified in the agreement in order to retain the naming rights of the Center. The 55% primary support clause ceases to apply if the aggregate support during the twenty-five year period reaches \$20,000,000.

NOTE 6—RELATED PARTY TRANSACTIONS

During 2019, the Foundation's Board of Directors and Board member family foundations donated \$171,793.

NOTES TO FINANCIAL STATEMENTS

NOTE 7—SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events through October 8, 2020, the date that the financial statements were available for issue. The coronavirus (COVID-19) outbreak in the United States has impacted the Foundation's fundraising efforts as a result of no special events being held during this period of time and possible upcoming cancellation of the annual fall fundraiser or converting to a virtual event. While the disruption is currently expected to be temporary, there is considerable uncertainty around its duration. Therefore, the Foundation expects this matter to negatively impact the results of its activities, however the related financial impact and duration cannot be reasonably estimated at this time.

Except for the separation agreement and grant agreement with Northwestern Memorial Foundation and the effects of the pandemic, there are no other subsequent events, which require disclosure.