



CANARY FOUNDATION

Stopping Cancer Early—The Best Possible Investment

THE CANARY FUND

*OPERATING AS THE
CANARY FOUNDATION*

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

DECEMBER 31, 2009

THE CANARY FUND

(A California Not-For-Profit Corporation)
December 31, 2009

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INDEPENDENT AUDITORS' REPORT

**The Board of Directors
The Canary Fund**

We have audited the accompanying statement of financial position of The Canary Fund (a non-profit corporation) as of December 31, 2009 and 2008 and the related statements of activities and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of The Canary Fund management. Our responsibility is to express an opinion on these financial statements based on our audits. The summarized information for the prior year was derived from The Canary Fund's December 31, 2008 financial statements. In our report dated May 26, 2009, we expressed an unqualified opinion on those financial statements.

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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Canary Fund as of December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Danville, California
March 12, 2010*

Regalia & Associates

THE CANARY FUND

Statement of Financial Position

December 31, 2009

(with Summarized Financial Information for the Year Ended December 31, 2008)

	Unrestricted Net Assets	Temporarily Restricted Net Assets	2009 Total	2008 Total
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 1,971,128	-	1,971,128	1,809,296
Grants and pledges receivable (current)	41,351	2,599,999	2,641,350	2,887,093
Total current assets	2,012,479	2,599,999	4,612,478	4,696,389
Noncurrent assets:				
Grants and pledges receivable (long-term)	-	7,270,000	7,270,000	8,905,501
Property and equipment, net	43,802	-	43,802	32,722
	\$ 2,056,281	9,869,999	11,926,280	13,634,612
LIABILITIES AND NET ASSETS				
Current liabilities:				
Grants and donations payable	\$ 5,875,856	-	5,875,856	7,551,293
Accrued liabilities	60,495	-	60,495	22,747
Note payable - current portion	130,701	-	130,701	-
Total current liabilities	6,067,052	-	6,067,052	7,574,040
Note payable - noncurrent portion	375,000	-	375,000	-
Total liabilities	6,442,052	-	6,442,052	7,574,040
Net assets:				
Unrestricted	(4,385,771)	-	(4,385,771)	(5,691,429)
Temporarily restricted	-	9,869,999	9,869,999	11,752,001
Total net assets	(4,385,771)	9,869,999	5,484,228	6,060,572
	\$ 2,056,281	9,869,999	11,926,280	13,634,612

THE CANARY FUND

Statement of Activities and Changes in Net Assets

For the Year Ended December 31, 2009

(with Summarized Financial Information for the Year Ended December 31, 2008)

	Unrestricted Net Assets	Temporarily Restricted Net Assets	2009 Total	2008 Total
<i>Changes in net assets:</i>				
Revenue and support:				
Contributions and fundraising	\$ 2,199,199	400,000	2,599,199	1,930,927
Net assets released from restrictions	2,596,500	(2,596,500)	-	-
Total contributed income	4,795,699	(2,196,500)	2,599,199	1,930,927
Change in value of long-term pledges receivable	-	314,498	314,498	166,404
Interest and investment income	916	-	916	27,367
Total revenue and support	4,796,615	(1,882,002)	2,914,613	2,124,698
Expenses:				
Programs	2,539,395	-	2,539,395	3,483,758
General and administrative	306,723	-	306,723	167,657
Fundraising	644,839	-	644,839	684,429
Total expenses	3,490,957	-	3,490,957	4,335,844
Increase (decrease) in net assets	1,305,658	(1,882,002)	(576,344)	(2,211,146)
Net assets at beginning of year	(5,691,429)	11,752,001	6,060,572	8,271,718
Net assets at end of year	\$ (4,385,771)	9,869,999	5,484,228	6,060,572

THE CANARY FUND

Statements of Cash Flows For the Years Ended December 31, 2009 and 2008

	2009	2008
<i>Operating activities:</i>		
Increase (decrease) in net assets	\$ (576,344)	(2,211,146)
Adjustments to reconcile to cash provided by (used for) operating activities:		
Depreciation	7,926	2,516
Change in value of long-term pledges receivable	(314,498)	(166,404)
Changes in:		
Grants and pledges receivable	2,195,742	2,789,907
Grants and donations payable	(1,675,437)	(1,280,015)
Accrued liabilities	37,748	4,052
Cash used for operating activities	<u>(324,863)</u>	<u>(861,090)</u>
<i>Investing activities:</i>		
Additions to property, equipment and improvements	<u>(19,006)</u>	(26,903)
Cash used for investing activities	<u>(19,006)</u>	<u>(26,903)</u>
<i>Financing activities:</i>		
Borrowings under note payable	<u>505,701</u>	-
Cash provided by financing activities	<u>505,701</u>	-
Increase (decrease) in cash and cash equivalents	161,832	(887,993)
Cash and cash equivalents at beginning of year	<u>1,809,296</u>	<u>2,697,289</u>
Cash and cash equivalents at end of year	\$ <u>1,971,128</u>	<u>1,809,296</u>

THE CANARY FUND

Notes to Financial Statements December 31, 2009

1. Organization

The Canary Fund (the "Fund") is a non-profit California corporation dedicated to the goal of identifying cancer early through a simple blood test and then isolating it with imaging. Since 2004, the Fund has raised approximately \$33 million and committed approximately \$21 million to early detection research. The Fund's collaborative research programs span multiple disciplines and institutions and all of the organization's donations are utilized for early detection research activities. The 2009 and 2008 operating costs of the Fund of approximately \$950,000 and \$850,000, respectively, have been largely underwritten by grants from Don Listwin and the Listwin Family Foundation with the remainder being funded with proceeds from the Orchard Supply Hardware Charity Golf Tournament. As a result, 100% of all other donations are expected to be available for funding current and future program expenses.

2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the Fund have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and, accordingly, reflect all significant receivables, payables and other liabilities.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards Number (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Fund is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Use of Estimates

The preparation of 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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of support, revenues, and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Fund considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Fund maintains its cash balances in high quality financial institutions, which at times may exceed federally insured limits. The Fund has not experienced any losses in such accounts.

Fair Value of Financial Instruments

Unless otherwise indicated, the fair values of all reported assets and liabilities, which represent financial instruments, none of which are held for trading purposes, approximate carrying values of such amounts.

THE CANARY FUND

Notes to Financial Statements

2. Summary of Significant Accounting Policies *(continued)*

Property, Equipment, and Improvements

Property and equipment are valued at cost or, if donated, at fair market value on the date of donation. Depreciation is provided by use of the straight-line method over the estimated useful lives of the assets. The cost of property and equipment greater than \$1,000 is capitalized and depreciated over the estimated useful life of each class of depreciable asset.

Net Assets

In accordance with accounting principles generally accepted in the United States of America, financial statements must present classes of net assets based on the following categories: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Grants and contributions are classified in the appropriate net asset category based on the absence or existence of donor-imposed restrictions that limit the use of the donated assets if they are designated as support for future periods or future projects when they are received.

The Fund reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets or if they are designated as support for future periods. When a donor's intended purpose is met or a time restriction expires, the temporarily restricted net asset is transferred to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions where restrictions are met in the same reporting period in which they are contributed are reported as unrestricted support.

Permanently restricted net assets include those net assets that must be maintained in perpetuity in accordance with donor restrictions. The investment return from such assets may be used for purposes as specified by the donor or, if the donor has not specified a purpose, the income from such investments is not restricted and is included in unrestricted net assets. The Fund had no permanently restricted net assets as of December 31, 2009 and 2008.

Unrestricted net assets include all of those donated assets that have no restrictions or limitations imposed on their use. The Board of Directors may elect certain unrestricted funds to be set aside as Board designated funds, which may not be spent without approval by the Board. No such funds were set-aside during the years ended December 31, 2009 and 2008.

At December 31, 2009 and 2008, the Fund had \$9,869,999 and \$11,752,001 in temporarily restricted net assets, respectively. During the years ended December 31, 2009 and 2008, net assets released from donor restrictions amounted to \$2,596,500 and \$2,942,000, respectively.

Related Party Transactions

Don Listwin is a board member and Chief Executive Officer of the Fund. Annually, the Fund's administrative and overhead expenses are underwritten by donations from Mr. Listwin and/or from gifts made by any of his affiliated entities (including the Listwin Trust and the Listwin Family Foundation) and proceeds from the Orchard Supply Hardware Charity Golf Tournament so that 100% of other donations can be available for current and future program expenses.

THE CANARY FUND

Notes to Financial Statements

2. Summary of Significant Accounting Policies *(continued)*

Revenue and Support Recognition

The Fund records contributions in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made* which requires that contributions received be recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Revenues from restricted grants and donations are recognized as income in the temporarily restricted fund in the period in which received and then transferred to unrestricted net assets when donor conditions are met and grant proceeds are considered earned. Grants which require the completion of certain feedback (and/or other reporting) as a precondition to funding are not recorded in the financial statements because, in the opinion of management, such funds are not “earned” until the final approval is obtained from the donor funding source.

Contributions

Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in unrestricted net assets. The Fund reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets or if they are designated as support for future periods. When a donor’s intended purpose is met or a time restriction expires, the temporarily restricted net asset is transferred to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions in which the donor restrictions are never relieved are recorded as permanently restricted support. Donor-restricted contributions where restrictions are met in the same reporting period in which they are contributed are reported as unrestricted support.

Donated property is recorded at the estimated fair value at the date of receipt. The Fund reports gifts of property as unrestricted support unless explicit donor stipulations specify how the donated assets are to be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as temporarily restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Fund reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Contributed Services and Costs

Contributed services and costs are reflected at the fair value of the contribution received. The contributions of services and costs are recognized if they (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

THE CANARY FUND

Notes to Financial Statements

2. Summary of Significant Accounting Policies *(continued)*

Income Taxes

Financial statement presentation follows the recommendations of the FASB in its Interpretation Number 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*. Under FIN 48, the Fund is required to report information regarding its exposure to various tax positions taken by the Fund and requires a two-step process that separates recognition from measurement. The first step is determining whether a tax position has met the recognition threshold; the second step is measuring a tax position that meets the recognition threshold. Management believes that the Fund has adequately addressed all tax positions and that there are no unrecorded tax liabilities.

The Fund has received notification from the Internal Revenue Service and the State of California that it qualifies for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and Section 27301d of the California Revenue and Taxation Code. The exemptions are subject to periodic review by the federal and state taxing authorities and management believes that the Fund continues to satisfy all federal and state statutes in order to qualify for continued tax exemption status.

3. Cash and Cash Equivalents

Cash and cash equivalents of \$1,971,128 at December 31, 2009 include funds in banks which have a maturity date of 90 days or less. A checking account in the amount \$1,694,275 held by the Fund at December 31, 2009 includes \$1,444,275 in funds that are not covered by insurance provided by the federal government (not FDIC insured). It is the opinion of management that the solvency of the referenced financial institution is satisfactorily strong and that Fund's financial position will not be compromised. The Fund attempts to limit its credit risk associated with cash equivalents and marketable securities by utilizing accounts at highly rated financial institutions.

4. Grants and Pledges Receivable

Grants and pledges receivable are expected to be collected as follows:

Year ending December 31, 2010	\$ 2,641,350
Year ending December 31, 2011	3,600,000
Year ending December 31, 2012	2,100,000
Year ending December 31, 2013	2,100,000
Total pledges receivable	<u>10,441,350</u>
Less: discount for multi-year contributions receivable	<u>(530,000)</u>
Present value of grants and pledges receivable	9,911,350
Less: grants and pledges receivable due within one year (current)	<u>(2,641,350)</u>
Grants and pledges receivable due after one year (noncurrent)	<u>\$ 7,270,000</u>

continued

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Notes to Financial Statements

4. Grants and Pledges Receivable *(continued)*

Pledges receivable due in more than one year are reflected at the present value of estimated future cash flows using a discount rate of 4% per annum. The change in the value of the long-term receivables during the years ended December 31, 2009 and 2008 amounted to \$314,498 and \$166,404, respectively, and is reflected as an adjustment to temporarily restricted net assets on the statement of activities and changes in net assets.

5. Property and Equipment

A summary of property and equipment is as follows at December 31, 2009 and 2008:

	2009	2008
Furniture	\$ 34,965	24,416
Equipment	22,183	13,726
Less accumulated depreciation	(13,346)	(5,420)
Total property and equipment (net)	\$ 43,802	32,722

Total depreciation expense for the years ended December 31, 2009 and 2008 amounted to \$7,926 and \$2,516, respectively, and is reflected as part of general and administrative expense on the statement of activities and changes in net assets.

6. Grants and Donations Payable

Grants and donations payable of \$5,875,856 and \$7,551,293 at December 31, 2009 and 2008, respectively, represent amounts authorized by the Fund's Board of Directors to be distributed during the next three years to organizations and researchers working on early-detection technologies to diagnose various forms of cancer.

7. Note Payable and Related Party Transaction

Note payable of \$505,701 at December 31, 2009 represents funds borrowed from Don Listwin (the Fund's Founder and Board President) which enabled the Fund to purchase various specialized research equipment which was then donated to Stanford Medical Center. The note is unsecured, bears interest at 2.05% per annum, and requires that principal and interest payments be tendered ratably over a four-year period. The current portion of note amounts to \$130,701 and is due and payable during the year ending December 31, 2010.

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Notes to Financial Statements

8. Temporarily Restricted Net Assets

The Fund recognizes support from temporarily restricted net assets when the restrictions imposed by the donors have been satisfied or expired. Temporarily restricted net assets consist of the following as of December 31, 2009 and 2008:

	2009	2008
Restricted for future early detection	\$ 2,000,000	3,000,000
Restricted for future general research	400,000	250,000
Restricted for future lung cancer research	7,750,000	8,500,000
Restricted for future operations	-	26,772
Restricted for future ovarian cancer research	-	200,000
Restricted for future prostate research	250,000	500,000
Restricted for future pancreas research	-	146,500
Less: discount for multi-year contributions receivable	(530,001)	(844,499)
Total temporarily restricted net assets	\$ 9,869,999	11,752,001

9. Lease Commitments and Occupancy

The Fund leases two storage units under month-to-month operating agreements which require total monthly rental payments of \$690 per month. Occupancy expense for storage units for the years ended December 31, 2009 and 2008 amounted to \$6,795 and \$8,644, respectively, and is included in occupancy expense on the statement of activities and changes in net assets.

The Fund utilizes office space which is provided pro-bono by Stanford Medical School. The value of this space was estimated to be \$48,000 for the year ended December 31, 2009 and is included as an in-kind donation in "contributions and fundraising" with a corresponding rent expense in "general and administrative expense" on the statement of activities and changes in net assets. The Fund also leases various facilities for special events under specific usage agreements at various rates and short-term durations.

10. Contingencies

During the year ended December 31, 2008, the Fund entered into negotiations with the Leland Stanford Junior University whereby the Fund pledged to provide \$7,500,000 in total funding over a period of nine years. This money is intended to be used for programs and capital improvements in connection with the creation of a new early detection cancer center and four faculty billets. The agreement is subject to certain contingencies which have not been satisfied as of December 31, 2009. Accordingly, because of the uncertainty surrounding the unresolved issues, the Fund has not accrued the remaining estimated commitment in these financial statements.

Notes to Financial Statements

11. Compensated Absences (Accrued payroll and related benefits)

Financial statement presentation follows the recommendations of SFAS No. 43, *Accounting for Compensated Absences*. Under SFAS No. 43, the Fund is required to record a liability for the estimated amounts of compensation for future absences. Employees are permitted to accrue a specific number of hours of vacation which is payable upon termination of the employee. Sick leave is not paid upon termination. Annual leave accruals are recorded in the financial statements as an accrued liability on the Statements of Financial Position based on hourly rates in effect at the end of the fiscal year.

12. Subsequent Events

In compliance with SFAS No. 165, *Subsequent Events*, the Fund has evaluated subsequent events through March 12, 2010, the date the financial statements were available to be issued. The following significant events occurred subsequent to December 31, 2009:

In 2009, a fundraising event in Canada titled "2009 Ride to Conquer Cancer" was organized and hosted by the British Columbia Cancer Foundation ("BCCF"). This event raised \$57,143 in funds which were intended to be paid to the Fund to benefit the Early Detection program. The BCCF was involved with receipt of the funds, but they were unable to disburse the amounts to a United States charity under a technicality of Canadian law. The Fund requested that BCCF instead remit the funds to the Canary Fund Canada (an independent nonprofit organization related to the Fund), and the funds were disbursed in March 2010.

On March 15, 2010 the Don Listwin Trust and the Listwin Family Foundation pledged \$2,000,000 to the Fund. In conjunction with this pledge, the Don Listwin Trust agreed to forgive the \$500,000 loan plus accrued interest (see Note 7).

Other than those events described above, there are no additional subsequent events which need to be disclosed.