



**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, 2010**

# THE CANARY FUND

(A California Not-For-Profit Corporation)  
December 31, 2010

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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, 2010 and 2009 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, 2009 financial statements. In our report dated March 12, 2010, 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, 2010 and 2009 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**  
**April 8, 2011**

*Regalia & Associates*

# THE CANARY FUND

## Statement of Financial Position

December 31, 2010

*(with Summarized Financial Information as of December 31, 2009)*

	Unrestricted Net Assets	Temporarily Restricted Net Assets	2010 Total	2009 Total
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 1,145,011	-	1,145,011	1,971,128
Grants and pledges receivable (current)	11,500	2,202,939	2,214,439	2,641,350
Prepaid expenses	34,144	-	34,144	-
Total current assets	1,190,655	2,202,939	3,393,594	4,612,478
Noncurrent assets:				
Grants and pledges receivable (long-term)	-	2,345,386	2,345,386	7,270,000
Property and equipment, net	35,423	-	35,423	43,802
	\$ 1,226,078	4,548,325	5,774,403	11,926,280
<b>LIABILITIES AND NET ASSETS</b>				
Current liabilities:				
Grants and donations payable	\$ 12,354,041	-	12,354,041	5,875,856
Accounts payable and accrued liabilities	144,218	-	144,218	60,495
Note payable - current portion	-	-	-	130,701
Total current liabilities	12,498,259	-	12,498,259	6,067,052
Note payable - noncurrent portion	-	-	-	375,000
Total liabilities	12,498,259	-	12,498,259	6,442,052
Net assets:				
Unrestricted	(11,272,181)	-	(11,272,181)	(4,385,771)
Temporarily restricted	-	4,548,325	4,548,325	9,869,999
Total net assets	(11,272,181)	4,548,325	(6,723,856)	5,484,228
	\$ 1,226,078	4,548,325	5,774,403	11,926,280

# THE CANARY FUND

## Statement of Activities and Changes in Net Assets For the Year Ended December 31, 2010

*(with Summarized Financial Information for the Year Ended December 31, 2009)*

	Unrestricted	Temporarily Restricted		
<i>Changes in net assets:</i>	Net Assets	Net Assets	2010 Total	2009 Total
Revenue and support:				
Contributions and fundraising	\$ 2,607,165	5,000,000	<b>7,607,165</b>	2,599,199
Net assets released from restrictions	3,197,061	(3,197,061)	-	-
Total contributed income	5,804,226	1,802,939	<b>7,607,165</b>	2,599,199
Write off of uncollectible grant receivable		(7,500,000)	<b>(7,500,000)</b>	-
Change in value of long-term pledges receivable	-	375,387	<b>375,387</b>	314,498
Interest and investment income	484	-	<b>484</b>	916
Loss on disposal of property and equipment	(2,511)	-	<b>(2,511)</b>	-
Total revenue and support	5,802,199	(5,321,674)	<b>480,525</b>	2,914,613
Expenses:				
Programs	11,709,576	-	<b>11,709,576</b>	2,539,395
General and administrative	264,169	-	<b>264,169</b>	306,723
Fundraising	714,864	-	<b>714,864</b>	644,839
Total expenses	12,688,609	-	<b>12,688,609</b>	3,490,957
Decrease in net assets	(6,886,410)	(5,321,674)	<b>(12,208,084)</b>	(576,344)
Net assets at beginning of year	(4,385,771)	9,869,999	<b>5,484,228</b>	6,060,572
Net assets at end of year	\$ (11,272,181)	4,548,325	<b>(6,723,856)</b>	5,484,228

# THE CANARY FUND

## Statements of Cash Flows For the Years Ended December 31, 2010 and 2009

	2010	2009
<i>Operating activities:</i>		
Decrease in net assets	\$ (12,208,084)	(576,344)
Adjustments to reconcile to cash provided by (used for) operating activities:		
Depreciation	8,274	7,926
Loss on disposal of property and equipment	2,511	-
Accrued interest expense forgiven	2,078	-
Change in value of long-term pledges receivable	(375,387)	(314,498)
Write off of uncollectible grant receivable	7,500,000	-
Changes in:		
Grants and pledges receivable	(1,773,088)	2,195,742
Prepaid expenses	(34,144)	-
Grants and donations payable	6,478,185	(1,675,437)
Accounts payable and accrued liabilities	83,723	37,748
 Cash used for operating activities	 (315,932)	 (324,863)
<i>Investing activities:</i>		
Additions to property, equipment and improvements	(2,406)	(19,006)
 Cash used for investing activities	 (2,406)	 (19,006)
<i>Financing activities:</i>		
Borrowings under note payable	-	505,701
Forgiveness of note payable and accrued interest	(507,779)	-
 Cash provided by (used for) financing activities	 (507,779)	 505,701
 Increase (decrease) in cash and cash equivalents	 (826,117)	 161,832
Cash and cash equivalents at beginning of year	1,971,128	1,809,296
 Cash and cash equivalents at end of year	 \$ 1,145,011	 1,971,128

# THE CANARY FUND

## Notes to Financial Statements

December 31, 2010

### 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 \$41 million and committed approximately \$33 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 2010 and 2009 operating costs of the Fund of approximately \$980,000 and \$950,000, 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 Accounting Standards Codification (ASC) 958.205, *Presentation of Financial Statements of Not-for-Profit Entities*. Under ASC 958.205, 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, 2010 and 2009.

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, 2010 and 2009.

At December 31, 2010 and 2009, the Fund had \$4,548,325 and \$9,869,999 in temporarily restricted net assets, respectively. During the years ended December 31, 2010 and 2009, net assets released from donor restrictions amounted to \$3,197,061 and \$2,596,500, 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 ASC 958.605, *Revenue Recognition of Not-for-Profit Entities* 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.

#### *Operating Leases*

The Fund records rent expense in accordance with ASC 840.20, *Accounting for Operating Leases* which requires that operating leases with scheduled increases in rent payments should be accounted for on a straight line basis.

# THE CANARY FUND

## Notes to Financial Statements

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

#### *Income Taxes*

Financial statement presentation follows the recommendations of ASC 740, *Income Taxes*. Under ASC 740, 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 \$1,145,011 at December 31, 2010 include funds in banks which have a maturity date of 90 days or less. A checking account in the amount \$496,533 held by the Fund at December 31, 2010 includes \$246,533 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, 2011	\$ 2,214,439
Year ending December 31, 2012	1,400,000
Year ending December 31, 2013	600,000
Year ending December 31, 2014	500,000
Total pledges receivable	<u>4,714,439</u>
Less: discount for multi-year contributions receivable	(154,614)
Less: estimated allowance for uncollectible balances	(16,575)
Less: grants and pledges receivable due within one year (current)	<u>(2,197,864)</u>
Grants and pledges receivable due after one year (noncurrent)	<u>\$ 2,345,386</u>

*continued*

# THE CANARY FUND

## 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, 2010 and 2009 amounted to \$375,387 and \$314,498, 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, 2010 and 2009:

	2010	2009
Furniture	\$ 34,965	34,965
Equipment	17,386	22,183
Less accumulated depreciation	(16,928)	(13,346)
Total property and equipment (net)	\$ 35,423	43,802

Total depreciation expense for the years ended December 31, 2010 and 2009 amounted to \$8,274 and \$7,926, respectively, and is reflected as part of general and administrative expense on the statement of activities and changes in net assets. During the year ended December 31, 2010, the Fund disposed of fixed assets with an original cost basis of \$7,203 and accumulated depreciation of \$4,692, resulting in a loss on disposal of \$2,511.

### 6. Grants and Donations Payable

Grants and donations payable of \$12,354,041 and \$5,875,856 at December 31, 2010 and 2009, 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 represented 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. During the year ended December 31, 2010, the note was forgiven and recognized as contributed income on the statement of activities and changes in net assets. Interest expense on the note payable amounted to \$2,078 and \$5,701 for the years ended December 31, 2010 and 2009, respectively, and it too was forgiven.

# THE CANARY FUND

## 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, 2010 and 2009:

	2010	2009
Restricted for future early detection	\$ 3,100,000	2,000,000
Restricted for future general research	300,100	400,000
Restricted for future lung cancer research	-	7,750,000
Restricted for future prostate research	-	250,000
Restricted for future operations	1,302,839	-
Less: discount for multi-year contributions receivable	(154,614)	(530,001)
Total temporarily restricted net assets	\$ 4,548,325	9,869,999

### 9. Lease Commitments and Occupancy

The Fund leases a storage unit under a month-to-month operating agreement which requires a rental payment of \$345 per month. Occupancy expense for storage units for the years ended December 31, 2010 and 2009 amounted to \$3,795 and \$6,795, respectively, and is included in occupancy expense on the statement of activities and changes in net assets.

The Fund utilizes office space located at the Stanford Medical School under a long-term operating lease expiring December 31, 2013. Rental payments are due monthly and are stipulated to increase from \$5,089 per month (as of December 31, 2010) up to \$5,401 per month (during the final year of the lease). The Fund also leases various facilities for special events under specific usage agreements at various rates and short-term durations. Future minimum rental payments due under non-cancelable operating leases as of December 31, 2010 are as follows:

Year ending December 31, 2011	\$ 62,089
Year ending December 31, 2012	63,331
Year ending December 31, 2013	64,597

### 10. Compensated Absences (Accrued Payroll and Related Benefits)

Financial statement presentation follows the recommendations of ASC 710.25, *Compensated Absences*. Under ASC 710.25, 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.

# THE CANARY FUND

## Notes to Financial Statements

### 11. Stanford Pledges

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. The agreement was subject to certain contingencies which had not been fully satisfied as of December 31, 2009. The contingencies have been satisfied as of December 31, 2010 and accordingly, the Fund has accrued the remaining estimated commitment of \$7,500,000 as of December 31, 2010. This pledge, along with two new pledges made in 2010 to Stanford of over \$3,600,000, brings the total of pledges made by the Fund to Stanford to approximately \$18,900,000.

### 12. Write Off of Uncollectible Grant Receivable

As of December 31, 2009, the Fund had \$7,750,000 in pledges receivable from The Thomas G. Labrecque Foundation. In 2010, the Fund received \$250,000 of this pledge and was notified by the Thomas G. Labrecque Foundation that it was unable to satisfy its remaining pledge of \$7,500,000. This uncollectible long-term pledge receivable had previously been recorded as an increase in temporarily restricted net assets. Accordingly, the Fund removed the receivable and reflected the write off as a reduction of revenue and support under temporarily restricted net assets as reported on the statement of activities and changes in net assets.

### 13. Subsequent Events

In compliance with ASC 855, *Subsequent Events*, the Fund has evaluated subsequent events through April 8, 2011, the date the financial statements were available to be issued and, in the opinion of management, there are no additional subsequent events which need to be disclosed.