



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, 2011

With Independent Auditors' Report

THE CANARY FUND

(A California Not-For-Profit Corporation)
December 31, 2011 and 2010

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The Canary Fund
1501 South California Avenue, Suite 2500
Palo Alto, California 94304
Office: 650-646-3200
Web Site: www.canaryfoundation.org

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, 2011 and 2010 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, 2010 financial statements. In our report dated April 8, 2011, 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, 2011 and 2010 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
May 18, 2012

Regalia & Associates

THE CANARY FUND

Statement of Financial Position

December 31, 2011

(with Summarized Financial Information as of December 31, 2010)

	Unrestricted	Temporarily Restricted	2011 Total	2010 Total
	Net Assets	Net Assets		
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 2,809,963	\$ 42,576	\$ 2,852,539	\$ 1,145,011
Grants and pledges receivable (current)	19,626	2,420,026	2,439,652	2,214,439
Prepaid expenses and other assets	26,123	-	26,123	34,144
Total current assets	2,855,712	2,462,602	5,318,314	3,393,594
Noncurrent assets:				
Grants and pledges receivable (long-term)	-	7,361,710	7,361,710	2,345,386
Property and equipment, net	72,681	-	72,681	35,423
	\$ 2,928,393	\$ 9,824,312	\$ 12,752,705	\$ 5,774,403
LIABILITIES AND NET ASSETS				
Current liabilities:				
Grants and donations payable	\$ 11,903,485	\$ -	\$ 11,903,485	\$ 12,354,041
Accounts payable and accrued liabilities	99,734	-	99,734	144,218
Total current liabilities	12,003,219	-	12,003,219	12,498,259
Net assets:				
Unrestricted	(9,074,826)	-	(9,074,826)	(11,272,181)
Temporarily restricted	-	9,824,312	9,824,312	4,548,325
Total net assets	(9,074,826)	9,824,312	749,486	(6,723,856)
	\$ 2,928,393	\$ 9,824,312	\$ 12,752,705	\$ 5,774,403

THE CANARY FUND

Statement of Activities and Changes in Net Assets For the Year Ended December 31, 2011

(with Summarized Financial Information for the Year Ended December 31, 2010)

	Unrestricted	Temporarily Restricted		
<i>Changes in net assets:</i>	Net Assets	Net Assets	2011 Total	2010 Total
Revenue and support:				
Contributions and fundraising	\$ 4,201,123	\$ 8,082,938	\$ 12,284,061	\$ 7,607,165
Net assets released from restrictions	2,232,913	(2,232,913)	-	-
Total contributed income	6,434,036	5,850,025	12,284,061	7,607,165
Write off of uncollectible grant receivable		-	-	(7,500,000)
Change in value of long-term pledges receivable	-	(574,038)	(574,038)	375,387
Investment income (loss)	(9,512)	-	(9,512)	484
Loss on disposal of property and equipment	(1,728)	-	(1,728)	(2,511)
Total revenue and support	6,422,796	5,275,987	11,698,783	480,525
Expenses:				
Programs	2,853,032	-	2,853,032	11,709,576
General and administrative	398,674	-	398,674	264,169
Fundraising	973,735	-	973,735	714,864
Total expenses	4,225,441	-	4,225,441	12,688,609
Increase (decrease) in net assets	2,197,355	5,275,987	7,473,342	(12,208,084)
Net assets at beginning of year	(11,272,181)	4,548,325	(6,723,856)	5,484,228
Net assets at end of year	\$ (9,074,826)	\$ 9,824,312	\$ 749,486	\$ (6,723,856)

THE CANARY FUND

Statements of Cash Flows For the Years Ended December 31, 2011 and 2010

	2011	2010
<i>Operating activities:</i>		
Increase (decrease) in net assets	\$ 7,473,342	\$ (12,208,084)
Adjustments to reconcile to cash provided by (used for) operating activities:		
Depreciation	12,429	8,274
Loss on disposal of property and equipment	1,728	2,511
Accrued interest expense forgiven	-	2,078
Change in value of long-term pledges receivable	574,038	(375,387)
Write off of uncollectible grant receivable	-	7,500,000
Changes in:		
Grants and pledges receivable	(5,815,575)	(1,773,088)
Prepaid expenses and other assets	8,021	(34,144)
Grants and donations payable	(450,556)	6,478,185
Accounts payable and accrued liabilities	(44,484)	83,723
 Cash provided by (used for) operating activities	 <u>1,758,943</u>	 <u>(315,932)</u>
<i>Investing activities:</i>		
Additions to property and equipment	(51,415)	(2,406)
 Cash used for investing activities	 <u>(51,415)</u>	 <u>(2,406)</u>
<i>Financing activities:</i>		
Forgiveness of note payable and accrued interest	-	(507,779)
 Cash provided by (used for) financing activities	 <u>-</u>	 <u>(507,779)</u>
Increase (decrease) in cash and cash equivalents	1,707,528	(826,117)
Cash and cash equivalents at beginning of year	1,145,011	1,971,128
 Cash and cash equivalents at end of year	 <u>\$ 2,852,539</u>	 <u>\$ 1,145,011</u>
<i>Additional cash flow information:</i>		
State registration taxes paid	\$ 225	\$ 150

THE CANARY FUND

Notes to Financial Statements

December 31, 2011

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 \$42 million and committed approximately \$36 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 2011 and 2010 operating costs of the Fund of approximately \$1,374,000 and \$980,000, 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, 2011 and 2010.

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, 2011 and 2010.

At December 31, 2011 and 2010, the Fund had \$9,824,312 and \$4,548,325 in temporarily restricted net assets, respectively. During the years ended December 31, 2011 and 2010, net assets released from donor restrictions amounted to \$2,232,913 and \$3,197,061, 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.

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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 and amounted to \$64,992 and \$104,400 for the years ended December 31, 2011 and 2010, respectively. 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.

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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 evaluated its current tax positions and has concluded that as of December 31, 2011, the Fund does not have any uncertain tax positions for which a reserve or an accrual for a tax liability would be necessary.

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 23701d 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 \$2,852,539 and \$1,145,011 at December 31, 2011 and 2010, respectively, include funds in banks which have a maturity date of 90 days or less. A checking account in the amount \$2,288,829 held by the Fund at December 31, 2011 includes \$2,038,829 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, 2012	\$ 2,481,227
Year ending December 31, 2013	1,600,000
Year ending December 31, 2014	1,500,000
Year ending December 31, 2015	4,990,362
Total pledges receivable	10,571,589
Less: discount for multi-year contributions receivable	(728,652)
Less: estimated allowance for uncollectible balances	(41,575)
Less: grants and pledges receivable due within one year (current)	(2,439,652)
Grants and pledges receivable due after one year (noncurrent)	\$ 7,361,710

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 changes in the value of the long-term receivables during the years ended December 31, 2011 and 2010 amounted to (\$574,038) and \$375,387, respectively, and are reflected as adjustments 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, 2011 and 2010:

	2011	2010
Furniture	\$ 35,237	\$ 34,965
Equipment	62,485	17,386
Less accumulated depreciation	(25,041)	(16,928)
Total property and equipment (net)	\$ 72,681	\$ 35,423

Total depreciation expense for the years ended December 31, 2011 and 2010 amounted to \$12,429 and \$8,274, 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, 2011, the Fund disposed of fixed assets with an original cost basis of \$6,044 and accumulated depreciation of \$4,316, resulting in a loss on disposal of \$1,728. 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 \$11,903,485 and \$12,354,041 at December 31, 2011 and 2010, 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. 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, 2011 and 2010:

	2011	2010
Restricted for future early detection	\$ 8,940,362	\$ 3,100,000
Restricted for future general research	200,000	300,100
Restricted for future operations	1,412,602	1,302,839
Less: discount for multi-year contributions receivable	(728,652)	(154,614)
Total temporarily restricted net assets	\$ 9,824,312	\$ 4,548,325

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Notes to Financial Statements

8. Lease Commitments and Occupancy

The Fund leases a storage unit under a month-to-month operating agreement which requires a rental payment of \$366 per month as of December 31, 2011. Occupancy expense for storage units for the years ended December 31, 2011 and 2010 amounted to \$4,329 and \$3,795, 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 \$5,191 per month (as of December 31, 2011) 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, 2011 are as follows:

Year ending December 31, 2012	\$ 63,331
Year ending December 31, 2013	64,598

9. Other Commitments and Contingencies

In the normal course of business there are outstanding various commitments and contingent liabilities, such as commitments to enter into contracts and future funding agreements, which are not reflected in the financial statements. Such commitments and contingencies also include risks associated with various economic and operating factors, which include (a) Grant restrictions and donor conditions which obligate the Fund to fulfill certain requirements as set forth in grant instruments, (b) Funding levels which vary based on factors beyond the Fund's control, such as generosity of donors and general economic conditions, (c) Employment and service agreements with key management personnel, including executive officers of the organization, and (d) Financial risks associated with funds on deposit in accounts at financial institutions. Certain of the grants and contracts are subject to audit and final acceptance by the granting agency. Current and prior costs of such grants are subject to adjustment upon audit. Management believes that such commitments, contingencies and risks will not have a material adverse effect on the financial statements.

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 paid time off which is payable upon termination of the employee. 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.

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Notes to Financial Statements

11. Write Off of Uncollectible Grant Receivable

During the year ended December 31, 2010, the Fund received notification from 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 for the year ended December 31, 2010.

12. Subsequent Events

In compliance with ASC 855, *Subsequent Events*, the Fund has evaluated subsequent events through May 18, 2012, the date the financial statements were available to be issued.

During January 2012, the Fund entered into a written agreement to provide funding to the Leland Stanford Junior University in the total amount of \$10,000,000 which will be paid in annual installments at the rate of \$2,000,000 for five years beginning December 31, 2012.

During March 2012, the Fund awarded payments totaling \$864,511 to be paid during the year ending December 31, 2012 to certain doctors involved with cancer research.

In the opinion of management, except as noted above, there are no additional subsequent events which need to be disclosed.