

**THE CANARY FUND**  
*OPERATING AS THE  
CANARY FOUNDATION*

**FINANCIAL STATEMENTS**

*FOR THE YEAR ENDED*

**DECEMBER 31, 2012**

With Independent Auditors' Report

# THE CANARY FUND

(A California Not-For-Profit Corporation)  
December 31, 2012 and 2011

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**REGALIA & ASSOCIATES**  
CERTIFIED PUBLIC ACCOUNTANTS

## **INDEPENDENT AUDITORS' REPORT**

### **The Board of Directors The Canary Fund**

We have audited the accompanying financial statements of The Canary Fund (a nonprofit organization) which comprise the statements of financial position as of December 31, 2012 and 2011 and the related statements of activities and changes in net assets, cash flows and functional expenses for the years then 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.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free 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 The Canary Fund as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Danville, California**  
**August 23, 2013**

*Regalia & Associates*

# THE CANARY FUND

## Statement of Financial Position

**December 31, 2012**

*(with Summarized Financial Information as of December 31, 2011)*

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>2012 Total</b>	<b>2011 Total</b>
	<b>Net Assets</b>	<b>Net Assets</b>		
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 2,868,615	\$ -	\$ 2,868,615	\$ 2,852,539
Grants and pledges receivable (current)	83,320	2,560,000	2,643,320	2,439,652
Prepaid expenses and other assets	27,509	-	27,509	26,123
Total current assets	2,979,444	2,560,000	5,539,444	5,318,314
Noncurrent assets:				
Grants and pledges receivable (long-term)	-	9,672,618	9,672,618	7,361,710
Property and equipment, net	61,603	-	61,603	72,681
	\$ 3,041,047	\$ 12,232,618	\$ 15,273,665	\$ 12,752,705
<b>LIABILITIES AND NET ASSETS</b>				
Current liabilities:				
Grants and donations payable	\$ 22,354,170	\$ -	\$ 22,354,170	\$ 11,903,485
Accounts payable and accrued liabilities	67,356	-	67,356	99,734
Total current liabilities	22,421,526	-	22,421,526	12,003,219
Net assets:				
Unrestricted	(19,380,479)	-	(19,380,479)	(9,074,826)
Temporarily restricted	-	12,232,618	12,232,618	9,824,312
Total net assets	(19,380,479)	12,232,618	(7,147,861)	749,486
	\$ 3,041,047	\$ 12,232,618	\$ 15,273,665	\$ 12,752,705

# THE CANARY FUND

## Statement of Activities and Changes in Net Assets For the Year Ended December 31, 2012

*(with Summarized Financial Information for the Year Ended December 31, 2011)*

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>		
<i>Changes in net assets:</i>	<b>Net Assets</b>	<b>Net Assets</b>	<b>2012 Total</b>	<b>2011 Total</b>
Revenue and support:				
Contributions and fundraising	\$ 2,371,182	\$ 8,120,000	\$ 10,491,182	\$ 12,284,061
Net assets released from restrictions	5,562,602	(5,562,602)	-	-
Total contributed income	7,933,784	2,557,398	10,491,182	12,284,061
Change in value of long-term pledges receivable	-	(149,092)	(149,092)	(574,038)
Investment income (loss)	1,050	-	1,050	(9,512)
Loss on disposal of property and equipment	(1,857)	-	(1,857)	(1,728)
Total revenue and support	7,932,977	2,408,306	10,341,283	11,698,783
Expenses:				
Programs	16,981,075	-	16,981,075	2,853,032
General and administrative	387,488	-	387,488	398,674
Fundraising	870,067	-	870,067	973,735
Total expenses	18,238,630	-	18,238,630	4,225,441
Increase (decrease) in net assets	(10,305,653)	2,408,306	(7,897,347)	7,473,342
Net assets at beginning of year	(9,074,826)	9,824,312	749,486	(6,723,856)
Net assets at end of year	\$ (19,380,479)	\$ 12,232,618	\$ (7,147,861)	\$ 749,486

# THE CANARY FUND

## Statements of Cash Flows For the Years Ended December 31, 2012 and 2011

	2012	2011
<i>Operating activities:</i>		
Increase (decrease) in net assets	\$ (7,897,347)	\$ 7,473,342
Adjustments to reconcile to cash provided by (used for) operating activities:		
Depreciation	17,596	12,429
Loss on disposal of property and equipment	1,857	1,728
Change in value of long-term pledges receivable	149,092	574,038
Changes in:		
Grants and pledges receivable	(2,663,670)	(5,815,575)
Prepaid expenses and other assets	(1,384)	8,021
Grants and donations payable	10,450,685	(450,556)
Accounts payable and accrued liabilities	(32,378)	(44,484)
Cash provided by operating activities	24,451	1,758,943
<i>Investing activities:</i>		
Additions to property and equipment	(8,375)	(51,415)
Cash used for investing activities	(8,375)	(51,415)
Increase in cash and cash equivalents	16,076	1,707,528
Cash and cash equivalents at beginning of year	2,852,539	1,145,011
Cash and cash equivalents at end of year	\$ 2,868,615	\$ 2,852,539
<i>Additional cash flow information:</i>		
State registration taxes paid	\$ 225	\$ 225

# THE CANARY FUND

## Notes to Financial Statements

December 31, 2012

### 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 \$54 million and committed approximately \$53 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 2012 and 2011 operating costs of the Fund of approximately \$1,259,000 and \$1,374,000, respectively, have been largely underwritten by grants from Don Listwin and the Listwin Family Foundation with the remainder being funded with proceeds from generous donations to the Founders Fund, The Canary Bike Challenge, Fall Fundraiser, Orchard Supply Hardware Charity Golf Tournament, and Early Detection Luncheon Series. 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, 2012 and 2011.

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, 2012 and 2011.

At December 31, 2012 and 2011, the Fund had \$12,232,618 and \$9,824,312 in temporarily restricted net assets, respectively. During the years ended December 31, 2012 and 2011, net assets released from donor restrictions amounted to \$5,562,602 and \$2,232,913, respectively.

#### *Related Party Transactions*

Don Listwin is a board member and Chief Executive Officer of the Fund. A significant portion of the Fund's administrative and overhead expenses have been 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 certain fundraising activities 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 and amounted to \$88,854 and \$64,992 for the years ended December 31, 2012 and 2011, 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.

# 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 evaluated its current tax positions and has concluded that as of December 31, 2012, 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 \$2,868,615 and \$2,852,539 at December 31, 2012 and 2011, respectively, include funds in banks which have a maturity date of 90 days or less. A checking account in the amount \$2,117,459 held by the Fund at December 31, 2012 includes \$1,867,459 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, 2013	\$ 2,643,320
Year ending December 31, 2014	2,060,000
Year ending December 31, 2015	5,490,362
Year ending December 31, 2016	1,500,000
Year ending December 31, 2017	1,500,000
Total pledges receivable	13,193,682
Less: discount for multi-year contributions receivable	(877,744)
Less: grants and pledges receivable due within one year (current)	(2,643,320)
Grants and pledges receivable due after one year (noncurrent)	\$ 9,672,618

*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 changes in the value of the long-term receivables during the years ended December 31, 2012 and 2011 amounted to (\$149,092) and (\$574,038), 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, 2012 and 2011:

	2012	2011
Furniture	\$ 35,237	\$ 35,237
Equipment	67,145	62,485
Less accumulated depreciation	(40,779)	(25,041)
Total property and equipment (net)	\$ 61,603	\$ 72,681

Total depreciation expense for the years ended December 31, 2012 and 2011 amounted to \$17,596 and \$12,429, 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, 2012, the Fund disposed of fixed assets with an original cost basis of \$3,715 and accumulated depreciation of \$1,858, resulting in a loss on disposal of \$1,857. 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.

### 6. Grants and Donations Payable

Grants and donations payable of \$22,354,170 and \$11,903,485 at December 31, 2012 and 2011, 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, 2012 and 2011:

	2012	2011
Restricted for future early detection	\$ 10,610,362	\$ 8,940,362
Restricted for future general research	-	200,000
Restricted for future operations	2,000,000	1,412,602
Restricted for prostate research	500,000	-
Less: discount for multi-year contributions receivable	(877,744)	(728,652)
Total temporarily restricted net assets	\$ 12,232,618	\$ 9,824,312

# THE CANARY FUND

## Notes to Financial Statements

### 8. Lease Commitments and Occupancy

The Fund leases certain equipment under a five year lease agreement which requires a rental payment of \$90 per quarter as of December 31, 2012. The Fund is also obligated under a data storage lease agreement requiring a monthly remittance of \$60.

In the past, the Fund utilized office space located at the Stanford Medical School under a long-term operating lease. In conjunction with the Fund's move to a new location, this agreement was terminated upon commencement of a new lease with Stanford Medical School on July 11, 2013. This new long term lease will terminate August 31, 2015. Rental payments are due monthly and are stipulated to increase from \$5,552 per month (during the first twelve months) up to \$5,769 per month (during the final six months 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, 2012 are as follows:

Year ending December 31, 2013	\$ 65,457
Year ending December 31, 2014	67,713
Year ending December 31, 2015	45,938

### 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.

### 11. Subsequent Events

In compliance with ASC 855, *Subsequent Events*, the Fund has evaluated subsequent events through August 23, 2013, the date the financial statements were available to be issued. Effective July 11, 2013, the Fund entered into an 18-month lease agreement for its corporate office facilities as noted above. In the opinion of management, there are no other subsequent events which need to be disclosed.