

**THE COALITION FOR PULMONARY FIBROSIS**  
**(A California Nonprofit Public Benefit Corporation)**

**FINANCIAL STATEMENTS**

**For the Year Ended**  
**December 31, 2006**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
The Coalition for Pulmonary Fibrosis  
San Jose, California

We have audited the accompanying statement of financial position of The Coalition for Pulmonary Fibrosis (a California nonprofit public benefit corporation) as of December 31, 2006, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

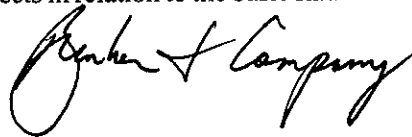
Except as discussed in the following paragraphs, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 audit provides a reasonable basis for our opinion.

Because we were not engaged as auditors and there was no audit as of and for the year ended December 31, 2005, we have not applied audit procedures necessary to satisfy ourselves about the classifications and amounts comprising the statement of financial position at December 31, 2005. Significant aspects of the statement of financial position at that date, including classifications and amounts, materially affect the statements of activities and cash flows for the year ended December 31, 2006.

Because of the matter discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the statements of activities and cash flows for the year ended December 31, 2006, or on the consistency of application of accounting principles with the preceding year.

In our opinion, the accompanying statement of financial position referred to in the first paragraph presents fairly, in all material respects, the financial position of The Coalition for Pulmonary Fibrosis as of December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of functional expenses is presented for the purposes of additional analysis and is not a required part of the basic financial statements of The Coalition for Pulmonary Fibrosis. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



August 1, 2007

**THE COALITION FOR PULMONARY FIBROSIS**  
**(A California Nonprofit Public Benefit Corporation)**

**STATEMENT OF FINANCIAL POSITION**  
**December 31, 2006**

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**ASSETS**

Current assets:	
Cash and cash equivalents (Note 1)	\$ 363,814
Grants receivable (Note 1)	<u>100,000</u>
Total current assets	463,814
Investments (Note 2)	21,659
Furniture, fixtures, and equipment, net of accumulated depreciation of \$6,722 (Notes 1 and 3)	<u>8,266</u>
Total assets	<u>\$ 493,739</u>

**LIABILITIES AND NET ASSETS**

Current liabilities:	
Accounts payable and accrued expenses	\$ 40,017
Accrued vacation	<u>2,723</u>
Total liabilities	<u>42,740</u>
Net assets:	
Unrestricted net assets	375,999
Temporarily restricted net assets (Note 4)	<u>75,000</u>
Total net assets	<u>450,999</u>
Total liabilities and net assets	<u>\$ 493,739</u>

The accompanying notes are an integral part of these financial statements.

**THE COALITION FOR PULMONARY FIBROSIS**  
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**STATEMENT OF ACTIVITIES**  
**For the year ended December 31, 2006**

	Unrestricted	Temporarily Restricted	Total
<b>SUPPORT AND REVENUE</b>			
Public support:			
Contributions	\$ 938,992	\$ 75,000	\$ 1,013,992
Grants	37,323	-	37,323
Special events, net (Note 5)	26,901	-	26,901
In-kind contributions (Note 6)	<u>201,203</u>	<u>-</u>	<u>201,203</u>
Total public support	<u>1,204,419</u>	<u>75,000</u>	<u>1,279,419</u>
Revenue:			
Investment income (Note 2)	<u>24,238</u>	<u>-</u>	<u>24,238</u>
Total support and revenue	<u>1,228,657</u>	<u>75,000</u>	<u>1,303,657</u>
<b>EXPENSES</b>			
Program services	895,115	-	895,115
General and administrative	70,570	-	70,570
Fundraising	<u>385,584</u>	<u>-</u>	<u>385,584</u>
Total expenses	<u>1,351,269</u>	<u>-</u>	<u>1,351,269</u>
Change in net assets	(122,612)	75,000	(47,612)
Net assets, beginning of year	<u>498,611</u>	<u>-</u>	<u>498,611</u>
Net assets, end of year	<u>\$ 375,999</u>	<u>\$ 75,000</u>	<u>\$ 450,999</u>

The accompanying notes are an integral part of these financial statements.

**THE COALITION FOR PULMONARY FIBROSIS**  
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**STATEMENT OF CASH FLOWS**  
**For the year ended December 31, 2006**

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**CASH FLOWS FROM OPERATING ACTIVITIES:**

Change in net assets	<u>\$ (47,612)</u>
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Depreciation	1,865
Realized gain on investments	(375)
Unrealized gain on investments	(1,408)
Contributions of securities received	(20,529)
Changes in assets and liabilities:	
Grants receivable	(46,805)
Accounts payable and accrued expenses	40,017
Accrued vacation	<u>2,723</u>
Total adjustments	<u>(24,512)</u>
Net cash used by operating activities	<u>(72,124)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Purchase of furniture, fixtures and equipment	(4,565)
Net sale of investments	<u>309,637</u>
Net cash provided by investing activities	<u>305,072</u>

Net increase in cash and cash equivalents	232,948
Cash and cash equivalents, beginning of year	<u>130,866</u>
Cash and cash equivalents, end of year	<u><u>\$ 363,814</u></u>

Supplementary information:

Non-cash transactions:	
Contributions of securities	<u>\$ 20,529</u>

The accompanying notes are an integral part of these financial statements.

**THE COALITION FOR PULMONARY FIBROSIS**  
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**NOTES TO FINANCIAL STATEMENTS**  
**For the year ended December 31, 2006**

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**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization - The Coalition for Pulmonary Fibrosis (a California public benefit corporation) was founded in 2001 and incorporated in 2003 to accelerate research efforts leading to a cure for idiopathic pulmonary fibrosis (IPF), while educating, supporting, and advocating for the community of patients, families, and medical professionals fighting this disease. The Corporation's major source of revenue is contributions.

Basis of Presentation - Resources are classified for accounting and reporting purposes into three classes of net assets, according to externally imposed restrictions:

*Unrestricted net assets* - Net assets that are not subject to any donor-imposed restrictions. This class also includes restricted gifts whose donor-imposed restrictions were met during the fiscal year.

*Temporarily restricted net assets* - Net assets resulting (a) from contributions and other inflows of assets whose use by the Corporation is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Corporation pursuant to those stipulations, (b) from other asset enhancements and diminishments that are subject to the same kind of stipulations, and (c) from reclassification from (or to) other classes of net assets as a consequence of donor-imposed stipulations, their expiration by passage of time, or their fulfillment and removal by actions of the Corporation pursuant to those stipulations.

*Permanently restricted net assets* - Net assets resulting (a) from contributions and other inflows of assets whose use by the Corporation is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Corporation, (b) from other asset enhancements and diminishments that are subject to the same kinds of stipulations, and (c) from reclassification from (or to) other classes of net assets as a consequence of donor-imposed stipulations.

There were no permanently restricted net assets as of December 31, 2006.

Method of Accounting - The financial statements of the Corporation are prepared using the accrual basis of accounting, which reflects revenue when earned and expenses as incurred.

Cash and Cash Equivalents - Cash is defined as cash in demand deposit accounts as well as cash on hand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and investments so near their maturity that the risk of changes in value due to changes in interest rates is negligible. These are generally investments with maturity dates within three months of the acquisition date.

**THE COALITION FOR PULMONARY FIBROSIS**  
**(A California Nonprofit Public Benefit Corporation)**

**NOTES TO FINANCIAL STATEMENTS**  
**For the year ended December 31, 2006**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Contributions - Contributions are recognized when the donor makes a promise to give to the Corporation that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Furniture, Fixtures and Equipment - The Corporation records furniture, fixtures and equipment at cost of acquisition, or, if donated, fair market value at date of donation. Depreciation is recognized using the straight-line method over the useful life of the assets, which ranges from five to seven years. The Corporation capitalizes all property and equipment with a cost in excess of \$1,000.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income Taxes - The Corporation is exempt from federal and state taxes under Section 501(c)(3) of the Internal Revenue Service Code and Section 23701d of the California Revenue and Taxation Code, and is considered by the IRS to be an organization other than a private foundation. In the opinion of management, there is no unrelated business income.

Accounts and Grants Receivable - It is the practice of the Corporation to expense uncollectibles only after exhausting all efforts to collect the amounts due. There is no allowance for doubtful accounts and management believes all amounts will be collected in full.

**NOTE 2 INVESTMENTS**

Investments, which are carried at market value and are subject to market risk, consist of money market funds, which are included in cash and cash equivalents, and the following at December 31, 2006:

	<u>Cost</u>	<u>Market Value</u>
Stocks	\$ 21,173	\$ 21,659

The following summarizes the investment income for the year ended December 31, 2006:

Unrealized gain	\$ 1,408
Realized gain	375
Interest and dividend income, including amounts earned on money market accounts	22,455
	\$ 24,238

**THE COALITION FOR PULMONARY FIBROSIS**  
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**NOTES TO FINANCIAL STATEMENTS**  
**For the year ended December 31, 2006**

**NOTE 3 FURNITURE, FIXTURES AND EQUIPMENT**

Furniture, fixtures and equipment consist of the following at December 31, 2006:

<u>Furniture, fixtures and equipment, at cost</u>	<u>Furniture and Fixtures</u>	<u>Computer Equipment</u>	<u>Total</u>
Balance, December 31, 2005	\$ 3,817	\$ 6,606	\$ 10,423
Additions	<u>-</u>	<u>4,565</u>	<u>4,565</u>
Balance, December 31, 2006	<u>3,817</u>	<u>11,171</u>	<u>14,988</u>
 <u>Accumulated depreciation</u>			
Balance, December 31, 2005	886	3,971	4,857
Depreciation expense	<u>545</u>	<u>1,320</u>	<u>1,865</u>
Balance, December 31, 2006	<u>1,431</u>	<u>5,291</u>	<u>6,722</u>
 Furniture, fixtures and equipment, net	 <u>\$ 2,386</u>	 <u>\$ 5,880</u>	 <u>\$ 8,266</u>

**NOTE 4 TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets consist of funds held for research and totaled \$75,000 at December 31, 2006.

**NOTE 5 SPECIAL EVENTS**

During the year ended December 31, 2006, the Corporation held two fundraising special events, including the "Breathing is Glorious" Ball and auction held in Chicago in October 2006. Revenue from special events was recorded at the fair market value for goods and services provided, with all amounts in excess of fair market value recorded as contributions. Auction revenue was reduced by the value of related in-kind goods and services provided as auctioned items. Special event revenue consisted of the following:

Proceeds for provision of goods and services, at fair market value	\$ 31,029
Proceeds from auction	85,280
Less: direct special event expenses	(56,150)
Less: value of in-kind goods and services donated for auction	<u>(33,258)</u>
	 <u>\$ 26,901</u>

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**NOTES TO FINANCIAL STATEMENTS**  
**For the year ended December 31, 2006**

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NOTE 6 IN-KIND CONTRIBUTIONS

During the year ended December 31, 2006, the Corporation received the benefit of the following in-kind goods and services:

Production of three public service announcements	\$ 150,000
Video production	19,600
Auction items	<u>31,603</u>
	<u>\$ 201,203</u>

NOTE 7 TAX SHELTERED ANNUITY

The Corporation has established a 403(b) deferred income plan for all employees who wish to participate. Voluntary contributions are made up to the extent permissible by law. The Corporation made no contribution to the plan during the year ended December 31, 2006.

NOTE 8 CONTINGENCIES

As of December 31, 2006, the Corporation had exceeded the Federal Depository Insurance Corporation limit of \$100,000 on its depository accounts. At December 31, 2006, approximately \$307,000 was on deposit in excess of federally insured limits.

**SUPPLEMENTARY INFORMATION**

**THE COALITION FOR PULMONARY FIBROSIS**  
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**SCHEDULE OF FUNCTIONAL EXPENSES**  
**For the year ended December 31, 2006**

	Program Services	General and Administrative	Fundraising	Total
Payroll salaries and benefits	\$ 194,514	\$ 27,658	\$ 126,105	\$ 348,277
Office expenses	210,187	15,364	81,140	306,691
Professional services	462,429	21,674	175,689	659,792
Other expenses	27,985	1,865	2,650	32,500
Gain/loss on disposition	<u>-</u>	<u>4,009</u>	<u>-</u>	<u>4,009</u>
	<u>\$ 895,115</u>	<u>\$ 70,570</u>	<u>\$ 385,584</u>	<u>\$ 1,351,269</u>