

PROSTATE CANCER FOUNDATION

CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

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YEAR ENDED DECEMBER 31, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Prostate Cancer Foundation

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the Prostate Cancer Foundation, which comprise the consolidated statement of financial position as of December 31, 2017 and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audit. 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Prostate Cancer Foundation as of December 31, 2017, and the changes in its consolidated net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors
Prostate Cancer Foundation

Report on Summarized Comparative Information

We have previously audited the Prostate Cancer Foundation's 2016 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated April 28, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Green Hasson & Janks LLP

August 15, 2018
Los Angeles, California

PROSTATE CANCER FOUNDATION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2017

With Summarized Totals at December 31, 2016

	Unrestricted	Temporarily Restricted	2017 Total	2016 Total
ASSETS				
Cash and Cash Equivalents	\$ 18,166,964	\$ 6,000,000	\$ 24,166,964	\$ 23,725,932
Pledges Receivable (Net)	22,763,091	4,833,334	27,596,425	28,451,046
Prepaid Expenses and Other Assets	1,135,934	-	1,135,934	203,481
Property and Equipment (Net)	1,865,740	-	1,865,740	709,738
TOTAL ASSETS	\$ 43,931,729	\$ 10,833,334	\$ 54,765,063	\$ 53,090,197
LIABILITIES AND NET ASSETS				
LIABILITIES:				
Accounts Payable	\$ 1,319,780	\$ -	\$ 1,319,780	\$ 730,582
Accrued Liabilities	1,916,705	-	1,916,705	1,364,526
Deferred Revenue	100,000	-	100,000	200,000
Grants Payable	22,612,846	-	22,612,846	20,442,238
TOTAL LIABILITIES	25,949,331	-	25,949,331	22,737,346
NET ASSETS:				
Unrestricted	17,982,398	-	17,982,398	23,664,489
Temporarily Restricted	-	10,833,334	10,833,334	6,688,362
TOTAL NET ASSETS	17,982,398	10,833,334	28,815,732	30,352,851
TOTAL LIABILITIES AND NET ASSETS	\$ 43,931,729	\$ 10,833,334	\$ 54,765,063	\$ 53,090,197

The Accompanying Notes are an Integral Part of These Consolidated Financial Statements

PROSTATE CANCER FOUNDATION

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended December 31, 2017

With Summarized Totals for the Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	2017 Total	2016 Total
REVENUE AND PUBLIC SUPPORT:				
Grants and Contributions	\$ 33,223,281	\$ 10,833,334	\$ 44,056,615	\$ 41,661,374
Interest and Dividends	88,679	-	88,679	39,891
Other Income (Loss)	(327,539)	-	(327,539)	12,011
Net Assets Released from Purpose Restrictions	6,688,362	(6,688,362)	-	-
<i>TOTAL REVENUE AND PUBLIC SUPPORT</i>	39,672,783	4,144,972	43,817,755	41,713,276
EXPENSES:				
Program Services	36,682,085	-	36,682,085	33,707,242
Supporting Services:				
Management and General	3,489,703	-	3,489,703	3,189,662
Fundraising	5,183,086	-	5,183,086	4,214,159
<i>TOTAL EXPENSES</i>	45,354,874	-	45,354,874	41,111,063
<i>CHANGE IN NET ASSETS</i>	(5,682,091)	4,144,972	(1,537,119)	602,213
Net Assets - Beginning of Year	23,664,489	6,688,362	30,352,851	29,750,638
<i>NET ASSETS - END OF YEAR</i>	\$ 17,982,398	\$ 10,833,334	\$ 28,815,732	\$ 30,352,851

The Accompanying Notes are an Integral Part of These Consolidated Financial Statements

PROSTATE CANCER FOUNDATION

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES Year Ended December 31, 2017 With Summarized Totals for the Year Ended December 31, 2016

	Program Services			Total Program Services	Supporting Services		Total Supporting Services	Total Expenses	
	Research Grants	Scientific Conferences and Programs	Public Awareness		Management and General	Fundraising		2017	2016
Research Grants	\$ 27,813,385	\$ -	\$ -	\$ 27,813,385	\$ -	\$ -	\$ -	\$ 27,813,385	\$ 25,193,943
Compensation, Benefits and Payroll Taxes	-	1,544,929	2,227,217	3,772,146	1,997,020	529,659	2,526,679	6,298,825	6,258,869
Outreach, Events and Meetings	-	-	369,934	369,934	-	2,683,645	2,683,645	3,053,579	2,582,685
Global Scientific Conferences and Unpublished Data and Knowledge Exchanges	-	1,991,482	-	1,991,482	-	-	-	1,991,482	2,175,579
Travel, Meals and Entertainment	-	42,130	223,675	265,805	119,105	1,315,149	1,434,254	1,700,059	1,405,402
Professional Fees	-	193,297	584,780	778,077	380,260	251,281	631,541	1,409,618	1,390,213
Office Expenses	-	90,847	113,266	204,113	720,302	361,721	1,082,023	1,286,136	1,169,456
Occupancy	-	48,506	116,568	165,074	164,195	35,376	199,571	364,645	373,973
Other Expenses	-	-	-	-	30,000	-	30,000	30,000	311,000
Media, Public Relations and Publications	-	-	941,673	941,673	48,268	3,999	52,267	993,940	169,177
Depreciation and Amortization	-	23,251	357,145	380,396	30,553	2,256	32,809	413,205	80,766
TOTAL 2017 FUNCTIONAL EXPENSES	\$ 27,813,385	\$ 3,934,442	\$ 4,934,258	\$ 36,682,085	\$ 3,489,703	\$ 5,183,086	\$ 8,672,789	\$ 45,354,874	
				81%	8%	11%		100%	
TOTAL 2016 FUNCTIONAL EXPENSES	\$ 25,193,943	\$ 4,264,167	\$ 4,249,132	\$ 33,707,242	\$ 3,189,662	\$ 4,214,159	\$ 7,403,821		\$ 41,111,063
				82%	8%	10%			100%

The Accompanying Notes are an Integral Part of These Consolidated Financial Statements

PROSTATE CANCER FOUNDATION

CONSOLIDATED STATEMENT OF CASH FLOWS Year Ended December 31, 2017 With Summarized Totals for the Year Ended December 31, 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ (1,537,119)	\$ 602,213
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used In) Operating Activities:		
Uncollectible Pledges Receivable	30,000	311,000
Depreciation and Amortization	413,205	80,766
(Increase) Decrease in:		
Pledges Receivable	824,621	(4,623,383)
Prepaid Expenses and Other Assets	(932,453)	(84,903)
Increase (Decrease) in:		
Accounts Payable	589,198	467,379
Accrued Liabilities	552,179	54,625
Deferred Revenue	(100,000)	(100,000)
Grants Payable	2,170,608	(913,107)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	2,010,239	(4,205,410)
CASH FLOWS USED IN INVESTING ACTIVITIES:		
Purchase of Property and Equipment	(1,569,207)	(660,200)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	441,032	(4,865,610)
Cash and Cash Equivalents - Beginning of Year	23,725,932	28,591,542
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 24,166,964	\$ 23,725,932

The Accompanying Notes are an Integral Part of These Consolidated Financial Statements

PROSTATE CANCER FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2017

NOTE 1 - NATURE OF ORGANIZATION

The Prostate Cancer Foundation is the world's leading philanthropic organization funding and accelerating research for better treatments and cures for prostate cancer.

The Coalition to Cure Prostate Cancer (the Coalition) was incorporated under the Canada Corporations Act during April 2011. The Coalition was granted charitable registration effective June 15, 2011. The Coalition's mission is to pursue research and clinical studies related to prostate and related cancers and to disseminate research reports and other educational materials related to such cancers.

The Coalition is an affiliate of the Prostate Cancer Foundation. Pursuant to the terms of a service agreement, the Prostate Cancer Foundation has agreed to provide certain pro bono services to the Coalition, including communications and fundraising support, program service and financial administration, and facilities. In addition, the Prostate Cancer Foundation has extended a guaranty to the Coalition for up to a maximum of \$100,000 to ensure that the Coalition will be able at all times to fund research awards approved by the Coalition's Board of Directors.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Prostate Cancer Foundation and the Coalition to Cure Prostate Cancer (collectively, the Foundation). All inter-organization balances and transactions have been eliminated on consolidation.

(b) BASIS OF PRESENTATION

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting.

(c) ACCOUNTING

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of the Foundation are maintained in accordance with the principles of net assets accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. All financial transactions have been recorded and reported by net asset class as follows:

- **Unrestricted.** These generally result from revenues generated by receiving unrestricted contributions, providing services, and receiving income from investments less expenses incurred in providing program related services, raising contributions, and performing administrative functions.

PROSTATE CANCER FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) ACCOUNTING (continued)

- **Temporarily Restricted.** The Foundation 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. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from purpose or time restrictions. Restricted contributions whose restrictions are met in the same reporting period are treated as unrestricted contributions. The Foundation had \$10,833,334 of temporarily restricted net assets at December 31, 2017.
- **Permanently Restricted.** These net assets are received from donors who stipulate that resources are to be maintained permanently, but permit the Foundation to expend all of the income (or other economic benefits) derived from the donated assets. The Foundation had no permanently restricted net assets at December 31, 2017.

(d) CASH AND CASH EQUIVALENTS

Cash and cash equivalents are short-term, highly liquid investments with maturities of three months or less at the time of purchase. The carrying value of cash and cash equivalents at December 31, 2017 approximates its fair value.

The Foundation maintains its cash and cash equivalents in bank deposit accounts and other investment accounts, which, at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

(e) GRANTS, CONTRIBUTIONS AND PLEDGES RECEIVABLE

Unconditional grants and contributions, including pledges recorded at fair value, are recognized as revenues in the period received. The Foundation reports unconditional grants and contributions as restricted support if they are received with donor stipulations that limit the use of the donated assets. Conditional promises to give are not included as revenue until such time as the conditions are substantially met. At December 31, 2017, the Foundation has a conditional pledge of \$2,000,000. A discount rate of 2% to 3% has been used to calculate the present value discount on pledges receivable.

PROSTATE CANCER FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost if purchased or at fair value at the date of donation if donated. Depreciation and amortization are provided on a straight-line basis over the estimated useful lives of the related assets as follows:

Computer Software		3 Years
Leasehold Improvements	Shorter of Lease Term or 10 Years	
Computer and Office Equipment		3 - 5 Years
Furniture and Fixtures		7 Years

Expenditures for repairs and maintenance are charged to operations when incurred while renewals and betterments are capitalized.

(g) LONG-LIVED ASSETS

The Foundation reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the book value of the assets may not be recoverable. An impairment loss is recognized when the sum of the undiscounted future cash flows is less than the carrying amount of the asset, in which case a write-down is recorded to reduce the related asset to its estimated fair value. No impairment losses were recognized on long-lived assets during the year ended December 31, 2017.

(h) DEFERRED REVENUE

Event sponsorships are recognized and reported in the period the related event is held. Sponsorships collected in advance of the event are recorded as deferred revenue.

(i) GRANTS

Research grants are charged against operations when authorized by the Scientific Review Committee. The actual payment of the grant may not occur in the year of authorization.

(j) INCOME TAXES

The Prostate Cancer Foundation is exempt from federal taxation under Internal Revenue Code Section 501(c)(3) and the corresponding California provisions. The Coalition has met the requirements for charitable registration and tax exemption under the Income Tax Act of Canada.

(k) FOREIGN CURRENCY

The accounts of the Coalition are maintained in its functional currency, which is the Canadian dollar. Assets have been translated into the reporting currency at year end exchange rates, and related revenues have been translated at average rates of exchange in effect during the year. The currency exchange gain resulting from the translation amounted to \$8,919 and is included in other income (loss) in the consolidated statement of activities for the year ended December 31, 2017.

PROSTATE CANCER FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the Foundation's programs and other activities have been presented in the consolidated statement of functional expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit.

(m) USE OF ESTIMATES

The preparation of consolidated 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.

(n) COMPARATIVE TOTALS

The consolidated financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Such information should be read in conjunction with the Foundation's consolidated financial statements for the year ended December 31, 2016 from which the summarized information was derived.

(o) NEW ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, which improves and converges the revenue recognition requirements of U.S. GAAP and International Financial Reporting Standards. The ASU replaces the existing accounting standards for revenue recognition with a single comprehensive five-step model, which is intended to provide principles within a single framework for revenue recognition of transactions involving contracts with customers across all industries. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also requires more detailed disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The guidance has subsequently been amended through a series of ASUs between August 2015 and September 2017 to improve the operability and understandability of the implementation guidance on principal versus agent considerations, licensing implementation guidance, scope exceptions, and various other narrow aspects, as identified and addressed in such updates. For the Foundation, the ASU and subsequent amendments will be effective for the year ending December 31, 2019.

PROSTATE CANCER FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) NEW ACCOUNTING PRONOUNCEMENTS (continued)

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*, which is intended to reduce complexity in financial reporting. The ASU focuses on improving the current net asset classification requirements and information presented in financial statements that is useful in assessing a nonprofit's liquidity, financial performance, and cash flows. For the Foundation, the ASU will be effective for the year ending December 31, 2018.

(p) SUBSEQUENT EVENTS

The Foundation has evaluated events and transactions occurring subsequent to the consolidated statement of financial position date of December 31, 2017 for items that should potentially be recognized or disclosed in these consolidated financial statements. The evaluation was conducted through August 15, 2018, the date these consolidated financial statements were available to be issued. No such material events or transactions were noted to have occurred.

NOTE 3 - PLEDGES RECEIVABLE

Pledges receivable are expected to be collected as follows:

To Be Received in Less than One Year	\$ 21,349,821
To Be Received in One to Five Years	<u>7,325,001</u>
TOTAL PLEDGES RECEIVABLE	28,674,822
Less: Present Value Discount	(701,976)
Less: Allowance for Uncollectible Pledges	<u>(376,421)</u>
PLEDGES RECEIVABLE (NET)	<u>\$ 27,596,425</u>

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Computer Software	\$ 2,312,147
Leasehold Improvements	823,039
Computer and Office Equipment	552,599
Furniture and Fixtures	<u>211,499</u>
TOTAL	3,899,284
Less: Accumulated Depreciation	<u>(2,033,544)</u>
PROPERTY AND EQUIPMENT (NET)	<u>\$ 1,865,740</u>

Depreciation and amortization expense for the year ended December 31, 2017 was \$413,205.

PROSTATE CANCER FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2017

NOTE 5 - GRANTS PAYABLE

The following is a summary of grants authorized and payable:

To Be Paid in Less than One Year	\$ 20,508,699
To Be Paid in One to Five Years	<u>2,104,147</u>
TOTAL GRANTS PAYABLE	<u>\$ 22,612,846</u>

NOTE 6 - RELATED PARTY TRANSACTIONS

The Foundation leases office space at fair market value from an affiliated charitable organization under a month-to-month operating lease. Rent expense under this operating lease amounted to \$276,329 for the year ended December 31, 2017.

Other services provided by affiliated organizations include production, accounting, maintenance and parking which amounted to \$281,403 for the year ended December 31, 2017.

Since the Foundation's inception in 1993 through December 31, 2017, it has received more than \$64,000,000 in contributions from the Milken Family, the Milken Family Foundation and affiliated organizations.

NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are restricted for the following purposes at December 31, 2017

Centers of Excellence Awards	\$ 9,100,000
Young Investigator Awards	<u>1,733,334</u>
TOTAL TEMPORARILY RESTRICTED NET ASSETS	<u>\$ 10,833,334</u>

NOTE 8 - PENSION PLAN

The Foundation maintains a defined contribution pension plan, which is qualified under Section 403(b) of the Internal Revenue Code. The plan covers all full-time employees and the plan provides for discretionary matching of up to 3% of each participant's compensation, which vests immediately. Employees may make contributions to the plan up to the maximum annual amount allowed by the Internal Revenue Code. Pension expense charged to operations for the year ended December 31, 2017 was \$93,812.

PROSTATE CANCER FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2017

NOTE 9 - ALLOCATION OF JOINT COSTS

The Foundation conducted direct mail campaigns and other public awareness events that included requests for contributions as well as program components. The costs of conducting these activities included joint costs totaled \$1,928,142 for the year ended December 31, 2017.

The joint costs for these activities were allocated as follows:

Program Services	\$ 1,153,626
Management and General	38,355
Fundraising	<u>736,161</u>
<i>TOTAL</i>	<u>\$ 1,928,142</u>