

PROSTATE CANCER FOUNDATION

CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

PROSTATE CANCER FOUNDATION
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YEAR ENDED DECEMBER 31, 2018

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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, 2018 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, 2018, 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 2017 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated August 15, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Green Hasson & Janks LLP

April 8, 2019
Los Angeles, California

PROSTATE CANCER FOUNDATION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2018

With Summarized Totals at December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	2018 Total	2017 Total
ASSETS				
Cash and Cash Equivalents	\$ 16,044,813	\$ 4,650,000	\$ 20,694,813	\$ 24,166,964
Pledges Receivable (Net)	14,894,136	12,725,000	27,619,136	27,596,425
Prepaid Expenses and Other Assets	1,009,073	-	1,009,073	1,135,934
Property and Equipment (Net)	1,660,133	-	1,660,133	1,865,740
	TOTAL ASSETS		\$ 50,983,155	\$ 54,765,063
LIABILITIES AND NET ASSETS				
LIABILITIES:				
Accounts Payable	\$ 783,154	\$ -	\$ 783,154	\$ 1,319,780
Accrued Liabilities	2,298,474	-	2,298,474	1,916,705
Deferred Revenue	50,000	-	50,000	100,000
Grants Payable	22,589,282	-	22,589,282	22,612,846
	TOTAL LIABILITIES		25,720,910	25,949,331
NET ASSETS:				
Without Donor Restrictions	7,887,245	-	7,887,245	17,982,398
With Donor Restrictions	-	17,375,000	17,375,000	10,833,334
	TOTAL NET ASSETS	17,375,000	25,262,245	28,815,732
	TOTAL LIABILITIES AND NET ASSETS		\$ 50,983,155	\$ 54,765,063

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

PROSTATE CANCER FOUNDATION

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended December 31, 2018

With Summarized Totals for the Year Ended December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	2018 Total	2017 Total
REVENUE AND PUBLIC SUPPORT:				
Grants and Contributions	\$ 28,693,134	\$ 13,375,000	\$ 42,068,134	\$ 44,056,615
Interest and Dividends	232,741	-	232,741	88,679
Other Income (Loss)	(274,082)	-	(274,082)	(327,539)
Net Assets Released from Donor Restrictions	6,833,334	(6,833,334)	-	-
TOTAL REVENUE AND PUBLIC SUPPORT	35,485,127	6,541,666	42,026,793	43,817,755
EXPENSES:				
Program Services	38,117,493	-	38,117,493	36,682,085
Supporting Services:				
Management and General	3,592,035	-	3,592,035	3,489,703
Fundraising	3,870,752	-	3,870,752	5,183,086
TOTAL EXPENSES	45,580,280	-	45,580,280	45,354,874
CHANGE IN NET ASSETS	(10,095,153)	6,541,666	(3,553,487)	(1,537,119)
Net Assets - Beginning of Year	17,982,398	10,833,334	28,815,732	30,352,851
NET ASSETS - END OF YEAR	<u>\$ 7,887,245</u>	<u>\$ 17,375,000</u>	<u>\$ 25,262,245</u>	<u>\$ 28,815,732</u>

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

PROSTATE CANCER FOUNDATION

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES Year Ended December 31, 2018 With Summarized Totals for the Year Ended December 31, 2017

	Program Services			Total Program Services	Supporting Services		Total Supporting Services	Total Expenses	
	Research Grants	Scientific Conferences and Programs	Public Awareness		Management and General	Fundraising		2018	2017
Research Grants	\$ 28,275,948	\$ -	\$ -	\$ 28,275,948	\$ -	\$ -	\$ -	\$ 28,275,948	\$ 27,813,385
Compensation, Benefits and Payroll Taxes	-	1,666,555	2,306,054	3,972,609	1,983,550	532,810	2,516,360	6,488,969	6,298,825
Outreach, Events and Meetings	-	-	882,407	882,407	-	1,659,027	1,659,027	2,541,434	3,053,579
Global Scientific Conferences and Unpublished Data and Knowledge Exchanges	-	2,091,212	-	2,091,212	-	-	-	2,091,212	1,991,482
Travel, Meals and Entertainment	-	52,142	283,499	335,641	72,596	1,109,413	1,182,009	1,517,650	1,700,059
Professional Fees	-	192,313	703,334	895,647	411,229	157,198	568,427	1,464,074	1,409,618
Office Expenses	-	83,721	144,933	228,654	858,766	380,177	1,238,943	1,467,597	1,286,136
Occupancy	-	46,046	134,344	180,390	164,525	22,322	186,847	367,237	364,645
Other Expenses	-	-	-	-	-	-	-	-	30,000
Media, Public Relations and Publications	-	2,400	785,733	788,133	30,073	1,123	31,196	819,329	993,940
Depreciation and Amortization	-	22,367	444,485	466,852	71,296	8,682	79,978	546,830	413,205
TOTAL 2018 FUNCTIONAL EXPENSES	\$ 28,275,948	\$ 4,156,756	\$ 5,684,789	\$ 38,117,493	\$ 3,592,035	\$ 3,870,752	\$ 7,462,787	\$ 45,580,280	
				84%	8%	8%		100%	
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%

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

PROSTATE CANCER FOUNDATION

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended December 31, 2018

With Summarized Totals for the Year Ended December 31, 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ (3,553,487)	\$ (1,537,119)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used In) Operating Activities:		
Uncollectible Pledges Receivable	-	30,000
Change in Present Value Discount on Pledges Receivable	415,854	94,086
Depreciation and Amortization	546,830	413,205
(Increase) Decrease in:		
Pledges Receivable	(438,565)	730,535
Prepaid Expenses and Other Assets	126,861	(932,453)
Increase (Decrease) in:		
Accounts Payable	(536,626)	589,198
Accrued Liabilities	381,769	552,179
Deferred Revenue	(50,000)	(100,000)
Grants Payable	(23,564)	2,170,608
	(3,130,928)	2,010,239
 NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
	(3,130,928)	2,010,239
 CASH FLOWS USED IN INVESTING ACTIVITIES:		
Purchase of Property and Equipment	(341,223)	(1,569,207)
	(3,472,151)	441,032
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
	(3,472,151)	441,032
Cash and Cash Equivalents - Beginning of Year	24,166,964	23,725,932
 CASH AND CASH EQUIVALENTS - END OF YEAR		
	\$ 20,694,813	\$ 24,166,964

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

PROSTATE CANCER FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2018

NOTE 1 - NATURE OF ORGANIZATION

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

The Coalition to Cure Prostate Cancer (the Coalition) was incorporated April 2011 under the Canada Corporations Act. 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 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 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 are prepared on the accrual basis of accounting.

(c) ACCOUNTING

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- **Net Assets without Donor Restrictions.** Net assets available for use in general operations and not subject to donor restrictions.
- **Net Assets with Donor Restrictions.** Contributions restricted by donors are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from donor restrictions.

PROSTATE CANCER FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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, 2018 approximates its fair value. At December 31, 2018, the Foundation had \$6,011,164 of US Treasury Bills, which is included in cash and cash equivalents.

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 revenue in the period received. The Foundation reports unconditional grants and contributions as support received with donor restrictions 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, 2018, the Foundation had no conditional grants. A discount rate of 2% to 3% was used to calculate the present value discount on pledges receivable.

(f) PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost if purchased or at fair value on 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 material impairment losses were recognized on long-lived assets during the year ended December 31, 2018.

(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.

PROSTATE CANCER FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 are translated into the reporting currency at year end exchange rates, and related revenues are translated at average rates of exchange in effect during the year. No currency exchange gain or loss resulting from the translation was reported in the consolidated statement of activities for the year ended December 31, 2018.

(l) FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the Foundation's programs and other activities are 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) RECLASSIFICATION

For comparability, certain December 31, 2017 amounts were reclassified to conform to the presentation used at December 31, 2018.

(o) 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, 2017 from which the summarized information was derived.

PROSTATE CANCER FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) 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.

In August 2016, 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. The Foundation implemented the ASU during the year ended December 31, 2018.

In June 2018, FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which is intended to clarify the accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance. For the Foundation, the ASU will be effective for the year ending December 31, 2019.

(q) SUBSEQUENT EVENTS

The Foundation has evaluated events and transactions occurring subsequent to the consolidated statement of financial position date of December 31, 2018 for items that should potentially be recognized or disclosed in these consolidated financial statements. The evaluation was conducted through April 8, 2019, the date these consolidated financial statements were available to be issued. No such material events or transactions were noted to have occurred.

PROSTATE CANCER FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2018

NOTE 3 - PLEDGES RECEIVABLE

Pledges receivable are expected to be collected as follows:

To Be Received in Less than One Year	\$ 9,900,932
To Be Received in One to Five Years	<u>19,411,834</u>
TOTAL PLEDGES RECEIVABLE	29,312,766
Less: Present Value Discount	(1,117,830)
Less: Allowance for Uncollectible Pledges	<u>(575,800)</u>
PLEDGES RECEIVABLE (NET)	<u><u>\$ 27,619,136</u></u>

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Computer Software	\$ 2,353,610
Leasehold Improvements	1,057,246
Computer and Office Equipment	612,389
Furniture and Fixtures	<u>217,261</u>
TOTAL	4,240,506
Less: Accumulated Depreciation	<u>(2,580,373)</u>
PROPERTY AND EQUIPMENT (NET)	<u><u>\$ 1,660,133</u></u>

Depreciation and amortization expense for the year ended December 31, 2018 was \$546,830.

NOTE 5 - GRANTS PAYABLE

The following is a summary of grants authorized and payable:

To Be Paid in Less than One Year	\$ 20,696,282
To Be Paid in One to Five Years	<u>1,950,000</u>
TOTAL GRANTS PAYABLE	22,646,282
Less: Present Value Discount	<u>(57,000)</u>
NET GRANTS PAYABLE	<u><u>\$ 22,589,282</u></u>

PROSTATE CANCER FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2018

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 \$282,329 for the year ended December 31, 2018.

Other services provided by affiliated organizations include production, office services, maintenance and parking which totaled \$484,987 for the year ended December 31, 2018.

Since the Foundation's inception in 1993 through December 31, 2018, it has received more than \$65,000,000 in contributions from The Michael and Lori Milken Family Foundation, the Milken Family Foundation, and affiliated organizations.

NOTE 7 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes at December 31, 2018:

Centers of Excellence Awards	\$ 15,900,000
Young Investigator Awards	<u>1,475,000</u>
TOTAL NET ASSETS WITH DONOR RESTRICTIONS	<u>\$ 17,375,000</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the year ended December 31, 2018:

Satisfaction of Purpose Restrictions	
Centers of Excellence Awards	\$ 4,500,000
Young Investigator Awards	<u>2,333,334</u>
TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS	<u>\$ 6,833,334</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, 2018 was \$108,909.

PROSTATE CANCER FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2018

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 totaling \$2,161,506 for the year ended December 31, 2018.

The joint costs for these activities were allocated as follows:

Program Services	\$ 1,284,963
Management and General	24,377
Fundraising	<u>852,166</u>
TOTAL	<u>\$ 2,161,506</u>

NOTE 10 - LIQUIDITY AND AVAILABILITY OF RESOURCES

The Foundation's financial assets available for general expenditures within one year of the consolidated statement of financial position date are summarized in the following table:

Financial Assets at December 31, 2018:	
Cash and Cash Equivalents	\$ 20,694,813
Pledges Receivable	<u>27,619,136</u>
TOTAL FINANCIAL ASSETS AT DECEMBER 31, 2018	48,313,949
Less Amounts Not Available to Be Used within One Year, Due to:	
Donor-Imposed Restrictions:	
Funds Held with Purpose Restrictions	(4,650,000)
Pledges Receivable Restricted by Purpose	<u>(12,725,000)</u>
FINANCIAL ASSETS AVAILABLE TO MEET GENERAL EXPENDITURES WITHIN ONE YEAR	<u>\$ 30,938,949</u>

The Foundation regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. As part of the Foundation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.