

Walther Cancer Foundation, Inc.

Independent Auditor's Report and Financial Statements
June 30, 2018 and 2017
(Income Tax Basis)

Walther Cancer Foundation, Inc.
June 30, 2018 and 2017

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Independent Auditor's Report

Board of Directors
Walther Cancer Foundation, Inc.
Indianapolis, Indiana

We have audited the accompanying income tax basis financial statements of Walther Cancer Foundation, Inc. (Foundation), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities 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 the basis of accounting the Foundation uses for income tax purposes described in Note 1; this includes determining that the income tax basis of accounting is an acceptable basis for preparation of the financial statements in the circumstances. Management is also responsible for 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 audit 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 Walther Cancer Foundation, Inc. as of June 30, 2018 and 2017, and the changes in its net assets for the years then ended in accordance with the basis of accounting the Foundation uses for income tax purposes as described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the basis of accounting the Foundation uses for income tax purposes, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

BKD, LLP

Indianapolis, Indiana
November 6, 2018

Walther Cancer Foundation, Inc.
Statements of Financial Position
June 30, 2018 and 2017
(Income Tax Basis)

Assets

	2018	2017
Cash and cash equivalents	\$ 2,688,797	\$ 2,495,654
Interest receivable on investments	91,118	82,698
Investments	146,840,405	143,954,156
Property and equipment, net of accumulated depreciation of \$277,097 and \$275,683	186,650	229,903
Total assets	\$ 149,806,970	\$ 146,762,411

Liabilities

Deferred net investment earnings	\$ 978,949	\$ 603,671
Accrued expenses	40,014	52,650
Total liabilities	1,018,963	656,321

Net Assets

Unrestricted	148,788,007	146,106,090
Total liabilities and net assets	\$ 149,806,970	\$ 146,762,411

Walther Cancer Foundation, Inc.
Statements of Activities
Years Ended June 30, 2018 and 2017
(Income Tax Basis)

	2018	2017
Change in Unrestricted Net Assets		
Revenues		
Interest and dividends	\$ 1,183,655	\$ 1,406,311
Net unrealized gains on investments	6,885,183	11,418,081
Net realized gains on sales of investments	3,029,689	1,889,520
Other investment income	376,700	164,809
	11,475,227	14,878,721
Less: investment expenses	(872,399)	(791,919)
Total investment income	10,602,828	14,086,802
Contributions and other	10,179	8,472
Total revenues	10,613,007	14,095,274
Expenses		
Grants	6,993,745	6,484,563
Taxes paid	10	46
Operating expenses		
Salary and related benefits	402,568	448,528
Legal, accounting and other professional fees	64,756	57,533
Consulting	202,000	227,037
Risk management	16,521	16,147
Occupancy and utilities	121,987	118,952
Office and other	129,503	134,075
Total operating expenses	937,335	1,002,272
Total expenses	7,931,090	7,486,881
Total Change in Net Assets	2,681,917	6,608,393
Net Assets, Beginning of Year	146,106,090	139,497,697
Net Assets, End of Year	\$ 148,788,007	\$ 146,106,090

Walther Cancer Foundation, Inc.

Notes to Financial Statements June 30, 2018 and 2017 (Income Tax Basis)

Note 1: Nature of Operations and Summary of Significant Accounting Policies

General

Walther Cancer Foundation, Inc. (Foundation) is an independent, private grantmaking foundation that funds cancer research with two primary goals: to support cancer research with the aim of discovering better treatments, if not cures, and to develop a comprehensive approach for supporting patients with cancer and their families. The Foundation is particularly interested in supporting efforts to strengthen cancer research infrastructures in the state of Indiana. The Foundation's primary sources of support and revenue is investment earnings.

Use of Estimates

The preparation of financial statements in conformity with the income tax basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures at the date of the financial statements and the reported amounts of the revenues, expenses and other changes in net assets during the reporting period.

Basis of Accounting

The Foundation prepares its financial statements using the income tax basis of accounting. The principle differences between the income tax basis of accounting and accounting principles generally accepted in the United States of America (GAAP) for the Foundation is that grants are recognized as expenses when paid rather than at the time of approval and income or loss allocations from U.S. partnerships are recognized on a calendar year basis as reported on the partnership K-1 tax forms. Therefore, certain income or loss allocations occurring between January 1 and June 30 each year are recorded as deferred income or loss. In addition, investments are carried at fair market value as defined within the Internal Revenue guidelines. Therefore, the Foundation has omitted disclosure of recurring fair value measurements based on the fair value hierarchy under GAAP.

Investments and Investment Return

The Foundation's investments consist of fixed income and equity securities, mutual funds and alternative investments. Alternative investments include realty funds, marketable alternatives, energy partnerships, commodities and private equity partnerships. Investment return includes dividends, interest and realized and unrealized gains and losses on investments carried at fair market value.

Walther Cancer Foundation, Inc.

Notes to Financial Statements June 30, 2018 and 2017 (Income Tax Basis)

Investments in equity securities and in debt securities are carried at their readily determinable fair market value. Alternative investments are also carried at estimated fair market value. For those alternative investments that do not have readily ascertainable market values, the estimated fair market value has been provided by management of the funds. These estimated values are subject to uncertainty, and therefore, may differ significantly from the value that would have been used had a market for such investments existed. The estimated fair market value is in accordance with Internal Revenue guidelines and is the price that property would sell for on the open market. It is the price that would be agreed on between a willing buyer and a willing seller, with neither being required to act, and both having reasonable knowledge of the relevant facts.

Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying statements of financial position.

Investment return (including realized and unrealized gains and losses on investments), net of fees, is included in the statements of activities. Investments are managed by professional investment managers in accordance with the Foundation's investment policies.

Income Taxes

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code and a similar provision of state law. The Foundation has been classified as a private foundation under Section 509(a) of the Internal Revenue Code, therefore, is subject to federal excise tax on net investment income. The Foundation is also subject to federal and state taxes on unrelated business income.

Property and Equipment

Property and equipment is carried at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated initial useful lives of the assets. Estimated useful lives are 5 years for equipment, and range from 10 to 20 years for furniture. Leasehold improvements are amortized over the lesser of the estimated useful life or the lease term. The Foundation's capitalization policy states that property and equipment in excess of \$3,000 are capitalized. Routine maintenance and repairs are expensed as incurred.

Contributions

Contributions are recognized and are recorded at their fair values as revenues and assets in the period received. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the year in which the gifts are recognized. All other donor restricted gifts are reported as increases in temporarily restricted net assets. When a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Walther Cancer Foundation, Inc.
Notes to Financial Statements
June 30, 2018 and 2017
(Income Tax Basis)

Grants

Grants are recorded when paid. The Foundation has approximately \$28,225,000 of grant commitments awarded that have not yet been paid at June 30, 2018.

Reclassifications

Certain reclassifications have been made to the 2017 financial statements to conform to the 2018 financial statement presentation. These reclassifications had no effect on the change in net assets.

Subsequent Events

Subsequent events have been evaluated through November 6, 2018, which is the date the financial statements were available to be issued.

Note 2: Related Party Transactions

The Foundation periodically enters into business transactions with outside organizations that employ or have other relationships with key employees or members of the Foundation's Board of Directors. Under the conflict of interest policy, the Board of Directors monitors these transactions, and steps are taken to ensure that the transactions are appropriate for the Foundation.

The Foundation previously entered into a lease agreement for office space with an organization that is a subsidiary of a not-for-profit organization. The not-for-profit organization is affiliated with board members of the Foundation. During 2017, the lessor not-for-profit organization sold the building to a third party not related to the Foundation. During 2017, the Foundation paid rent to the not-for-profit lessor company in the amount of \$38,217.

Note 3: Investments

The Foundation's investments are managed by professional investment managers, and the Foundation also utilizes the services of an investment advisor. The fair market value of approximately 63% and 62% of investments at June 30, 2018 and 2017, respectively, were provided by the fund managers.

The Foundation has adopted investment and spending policies that attempt to provide for long-term growth without undue exposure to risk, while providing an income stream to cover administrative expenses and cash flow for research grants.

Walther Cancer Foundation, Inc.
Notes to Financial Statements
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The Foundation recognizes that prudent investing requires the assumption of reasonable risk in order to increase the likelihood of achieving the desired investment performance. The Foundation believes the asset allocation targets and ranges it has adopted best suit its diversification and risk requirements. The Foundation understands that this strategy could produce an after-fee loss in a given year.

At June 30, 2018 and 2017, the fair market value of the Foundation's investments are comprised of:

	<u>2018</u>	<u>2017</u>
U.S. government obligations	\$ 246,882	\$ 247,899
U.S. government agency obligations	8,628,904	9,445,241
Corporate obligations	2,724,916	1,580,907
Municipal obligations	987,230	1,022,203
Equities	12,921,402	10,908,551
Exchange traded funds - Gold	2,668,557	2,895,621
Mutual funds		
Equity	23,315,136	24,319,732
Fixed income	1,770,012	3,265,538
Commingled trusts - Equities	9,555,645	10,657,157
Limited partnerships		
Equities	15,241,505	16,484,280
Private equity	10,847,362	6,855,093
Real assets	10,348,149	10,683,738
Mortgages	736	152,743
Hedge funds		
Distressed	12,769,523	11,732,624
Long/short equity	15,881,334	14,197,660
Absolute return	18,933,112	19,505,169
	<u>\$ 146,840,405</u>	<u>\$ 143,954,156</u>
Total		

Under the terms of certain limited partnership agreements for private equity, real asset and hedge funds, the Foundation is obligated to remit additional funding periodically as capital calls are exercised. At June 30, 2018, the Foundation had unfunded capital commitments totaling approximately \$14,200,000. Such commitments are generally called over a period of years and contain fixed expiration dates or other termination clauses. The Foundation maintains sufficient liquidity in its investment portfolio to cover such calls.

Walther Cancer Foundation, Inc.

Notes to Financial Statements June 30, 2018 and 2017 (Income Tax Basis)

Note 4: Property and Equipment

The Foundation's property and equipment at June 30, 2018 and 2017, is as follows:

	<u>2018</u>	<u>2017</u>
Furniture and equipment	\$ 153,091	\$ 194,930
Leasehold improvements	310,656	310,656
	<u>463,747</u>	<u>505,586</u>
Less: accumulated depreciation	<u>(277,097)</u>	<u>(275,683)</u>
	<u>\$ 186,650</u>	<u>\$ 229,903</u>

Note 5: Defined-Contribution Plan

During 2018, the Foundation terminated the Foundation sponsored defined-contribution 403(b) tax deferred annuity plan and opened a 401(k) plan for all eligible employees. Defined-contribution plan expenses were \$34,417 and \$39,568 during 2018 and 2017, respectively.

Note 6: Qualifying Distributions

Qualifying distributions made during the years ended June 30, 2018 and 2017, include:

	<u>2018</u>	<u>2017</u>
Grants paid	\$ 6,993,745	\$ 6,484,563
Operating and administrative expenses	<u>561,511</u>	<u>505,417</u>
Total qualifying distributions	<u>\$ 7,555,256</u>	<u>\$ 6,989,980</u>