

Walther Cancer Foundation, Inc.

Independent Auditor's Report and Financial Statements

June 30, 2019 and 2018

(Income Tax Basis)

Walther Cancer Foundation, Inc.

June 30, 2019 and 2018

Contents

Independent Auditor's Report.....	1
-----------------------------------	---

Financial Statements - Income Tax Basis

Statements of Financial Position	3
Statements of Activities.....	4
Statements of Expenses	5
Notes to Financial Statements	6

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, 2019 and 2018, and the related statements of activities and 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 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, 2019 and 2018, 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.

Emphasis of Matter

As described in Note 2 to the financial statements, in 2019, the Foundation adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

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 5, 2019

Walther Cancer Foundation, Inc.
Statements of Financial Position
June 30, 2019 and 2018
(Income Tax Basis)

Assets

	2019	2018
Cash and cash equivalents	\$ 2,094,576	\$ 2,688,797
Interest receivable on investments	94,765	91,118
Investments	144,800,903	146,840,405
Property and equipment, net of accumulated depreciation of \$304,981 and \$277,097	158,766	186,650
Total assets	\$ 147,149,010	\$ 149,806,970

Liabilities

Deferred net investment earnings	\$ 1,650,950	\$ 978,949
Accrued expenses	27,378	40,014
Total liabilities	1,678,328	1,018,963

Net Assets

Without donor restrictions	145,470,682	148,788,007
Total liabilities and net assets	\$ 147,149,010	\$ 149,806,970

Walther Cancer Foundation, Inc.
Statements of Activities
Years Ended June 30, 2019 and 2018
(Income Tax Basis)

	2019	2018
Change in Net Assets Without Donor Restrictions		
Revenues		
Interest and dividends	\$ 1,236,153	\$ 1,183,655
Net unrealized gains on investments	2,535,792	6,885,183
Net realized gains on sales of investments	1,132,441	3,029,689
Other investment income	379,671	376,700
	5,284,057	11,475,227
Less: investment expenses	(1,058,965)	(1,190,062)
Total investment income	4,225,092	10,285,165
Contributions and other	20,721	10,179
Total revenues	4,245,813	10,295,344
Expenses		
Grants	6,991,254	6,993,745
Taxes paid	22,565	10
Operating expenses		
Salary and related benefits	240,125	238,275
Legal, accounting and other professional fees	16,807	28,453
Consulting	153,600	163,600
Risk management	10,864	11,324
Occupancy and utilities	68,685	83,611
Office and other	59,238	94,409
Total operating expenses	549,319	619,672
Total expenses	7,563,138	7,613,427
Total Change in Net Assets	(3,317,325)	2,681,917
Net Assets, Beginning of Year	148,788,007	146,106,090
Net Assets, End of Year	\$ 145,470,682	\$ 148,788,007

Walther Cancer Foundation, Inc.
Statements of Expenses
Year Ended June 30, 2019
(With Comparative Totals for 2018)
(Income Tax Basis)

	Program	General and Administrative	2019 Total	2018 Total
Salaries	\$ 90,134	\$ 70,588	\$ 160,722	\$ 159,150
Benefits	38,155	29,882	68,037	67,556
FICA	6,374	4,992	11,366	11,569
Legal, accounting and other professional fees	10,707	6,100	16,807	28,453
Consulting	129,600	24,000	153,600	163,600
Risk management	7,595	3,269	10,864	11,324
Building rent	25,095	10,805	35,900	37,978
Depreciation and amortization	12,987	5,591	18,578	32,971
Utilities	9,932	4,275	14,207	12,662
Office expenses	6,398	2,754	9,152	11,866
Software fees and maintenance	28,553	5,887	34,440	57,697
Meetings, conferences and travel	8,112	3,131	11,243	9,812
Dues and subscriptions	2,999	1,291	4,290	3,792
Other	82	31	113	11,242
Total operating expenses	<u>376,723</u>	<u>172,596</u>	<u>549,319</u>	<u>619,672</u>
Grant expense	6,991,254	-	6,991,254	6,993,745
Taxes paid	<u>22,565</u>	<u>-</u>	<u>22,565</u>	<u>10</u>
Total expenses	<u><u>\$ 7,390,542</u></u>	<u><u>\$ 172,596</u></u>	<u><u>\$ 7,563,138</u></u>	<u><u>\$ 7,613,427</u></u>

Walther Cancer Foundation, Inc.

Notes to Financial Statements June 30, 2019 and 2018 (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, 2019 and 2018
(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.

Walther Cancer Foundation, Inc.
Notes to Financial Statements
June 30, 2019 and 2018
(Income Tax Basis)

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 net assets without donor restrictions if the restrictions expire in the year in which the gifts are recognized. All other donor restricted gifts are reported as increases in net assets with donor restrictions. When a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Grants

Grants are recorded when paid. The Foundation has approximately \$21,512,000 of grant commitments awarded that have not yet been paid at June 30, 2019.

Expense Allocation

The costs of supporting programs and other activities have been summarized on a functional basis in the statements of activities. The statements of expenses present the classification detail of expenses by function. Expenses have been classified as programs services or management and general based on the actual direct expenditures and using cost allocations based upon estimates of time spent by Foundation personnel. External and direct internal investment expenses are reported as an offset against gross investment earnings within the statements of activities.

Subsequent Events

Subsequent events have been evaluated through November 5, 2019, which is the date the financial statements were available to be issued.

Walther Cancer Foundation, Inc.

Notes to Financial Statements June 30, 2019 and 2018 (Income Tax Basis)

Note 2: Change in Accounting Principle

In 2019, the Foundation adopted ASU 2016-14, *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities*. A summary of the changes is as follows:

Statement of Financial Position

- The statement of financial position distinguishes between two new classes of net assets – those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets – unrestricted, temporarily restricted and permanently restricted.

Statement of Activities

- Expenses are reported by both nature and function in one location.
- Investment income is shown net of external and direct internal investment expenses. Reclassifications of \$317,663 were made from operating expenses to allocate internal investment expenses to net investment earnings for fiscal year 2018 from what was previously reported.

Notes to the Financial Statements

- Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one-year from the date of the statement of financial position.

This change had no impact on previously reported total change in net assets.

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% of investments at June 30, 2019 and 2018, 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.

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.

Walther Cancer Foundation, Inc.
Notes to Financial Statements
June 30, 2019 and 2018
(Income Tax Basis)

At June 30, 2019 and 2018, the fair market value of the Foundation's investments are comprised of:

	<u>2019</u>	<u>2018</u>
U.S. government obligations	\$ 393,466	\$ 246,882
U.S. government agency obligations	8,473,993	8,628,904
Corporate obligations	2,019,481	2,724,916
Municipal obligations	1,050,852	987,230
Equities	14,216,452	12,921,402
Exchange traded funds - Gold	2,995,805	2,668,557
Mutual funds		
Equity	22,805,347	23,315,136
Fixed income	852,399	1,770,012
Commingled trusts - Equities	8,282,662	9,555,645
Limited partnerships		
Equities	14,482,029	15,241,505
Private equity	15,879,635	10,847,362
Real assets	10,839,796	10,348,149
Mortgages	-	736
Hedge funds		
Distressed	11,490,406	12,769,523
Long/short equity	15,209,279	15,881,334
Absolute return	15,809,301	18,933,112
	<u>\$ 144,800,903</u>	<u>\$ 146,840,405</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, 2019, the Foundation had unfunded capital commitments totaling approximately \$13,411,000. 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, 2019 and 2018 (Income Tax Basis)

Note 4: Property and Equipment

The Foundation's property and equipment at June 30, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Furniture and equipment	\$ 153,091	\$ 153,091
Leasehold improvements	310,656	310,656
	<u>463,747</u>	<u>463,747</u>
Less: accumulated depreciation	<u>(304,981)</u>	<u>(277,097)</u>
	<u>\$ 158,766</u>	<u>\$ 186,650</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 \$35,809 and \$34,417 during 2019 and 2018, respectively.

Note 6: Qualifying Distributions

Qualifying distributions made during the years ended June 30, 2019 and 2018 include:

	<u>2019</u>	<u>2018</u>
Grants paid	\$ 6,991,254	\$ 6,993,745
Operating and administrative expenses	<u>531,070</u>	<u>561,511</u>
Total qualifying distributions	<u>\$ 7,522,324</u>	<u>\$ 7,555,256</u>

Walther Cancer Foundation, Inc.

Notes to Financial Statements June 30, 2019 and 2018 (Income Tax Basis)

Note 7: Liquidity and Availability

Financial assets available for general expenditure, that is, without donor restrictions or other restrictions limiting their use, within one year of June 30, 2019, comprise the following:

	<u>2019</u>
Cash and cash equivalents	\$ 2,094,576
Interest receivable on investments	94,765
Redeemable investments	<u>113,294,100</u>
Total liquid financial assets	<u>115,483,441</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 115,483,441</u>

The Foundation manages its liquidity following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and seeking long-term growth sufficient to preserve and enhance the purchasing power of the assets and meet spending needs. The Foundation's investment policy allows for a maximum allocation to illiquid holdings of 30% of the investment portfolio, with illiquidity defined as money that is accessible beyond one year. To achieve these targets, the Foundation forecasts its future cash flows and monitors its liquidity quarterly. During the year ended June 30, 2019, the level of liquidity was within the policy requirements.