

Walther Cancer Foundation, Inc.

Independent Auditor's Report and Financial Statements

June 30, 2020 and 2019

(Income Tax Basis)

Walther Cancer Foundation, Inc.

June 30, 2020 and 2019

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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, 2020 and 2019, 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 as of June 30, 2020 and 2019, and the changes in its net assets for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 3, 2020

Walther Cancer Foundation, Inc.
Statements of Financial Position
June 30, 2020 and 2019
(Income Tax Basis)

Assets

| | 2020 | 2019 |
|---|----------------|----------------|
| Cash and cash equivalents | \$ 1,877,011 | \$ 2,094,576 |
| Interest receivable on investments | 86,626 | 94,765 |
| Investments | 142,790,676 | 144,800,903 |
| Property and equipment, net of accumulated depreciation of \$332,865 and \$304,981 | 130,882 | 158,766 |
| Total assets | \$ 144,885,195 | \$ 147,149,010 |

Liabilities

| | | |
|----------------------------------|-----------|--------------|
| Deferred net investment earnings | \$ 70,389 | \$ 1,650,950 |
| Accrued expenses | 14,742 | 27,378 |
| Total liabilities | 85,131 | 1,678,328 |

Net Assets

| | | |
|----------------------------------|----------------|----------------|
| Without donor restrictions | 144,800,064 | 145,470,682 |
| Total liabilities and net assets | \$ 144,885,195 | \$ 147,149,010 |

Walther Cancer Foundation, Inc.
Statements of Activities
Years Ended June 30, 2020 and 2019
(Income Tax Basis)

| | 2020 | 2019 |
|--|----------------|----------------|
| Change in Net Assets Without Donor Restrictions | | |
| Revenues | | |
| Interest and dividends | \$ 1,322,511 | \$ 1,236,153 |
| Net unrealized gains on investments | 4,067,170 | 2,535,792 |
| Net realized gains on sales of investments | 2,465,413 | 1,132,441 |
| Other investment income | 142,983 | 379,671 |
| | 7,998,077 | 5,284,057 |
| Less: investment expenses | (1,104,697) | (1,058,965) |
| Total investment income | 6,893,380 | 4,225,092 |
| Contributions and other revenue | 72,432 | 20,721 |
| Total revenues | 6,965,812 | 4,245,813 |
| Expenses | | |
| Grants | 7,034,920 | 6,991,254 |
| Taxes paid | 44,333 | 22,565 |
| Operating expenses | | |
| Salary and related benefits | 245,063 | 240,125 |
| Legal, accounting and other professional fees | 15,253 | 16,807 |
| Consulting | 153,600 | 153,600 |
| Risk management | 11,572 | 10,864 |
| Occupancy and utilities | 66,810 | 68,685 |
| Office and other | 64,879 | 59,238 |
| Total operating expenses | 557,177 | 549,319 |
| Total expenses | 7,636,430 | 7,563,138 |
| Total Change in Net Assets | (670,618) | (3,317,325) |
| Net Assets, Beginning of Year | 145,470,682 | 148,788,007 |
| Net Assets, End of Year | \$ 144,800,064 | \$ 145,470,682 |

Walther Cancer Foundation, Inc.
Statements of Expenses
Years Ended June 30, 2020 and 2019
(Income Tax Basis)

| | 2020 | | |
|---|---------------------|---------------------------------------|---------------------|
| | Program | General and Administrative | Total |
| Salaries | \$ 90,990 | \$ 71,448 | \$ 162,438 |
| Benefits | 39,812 | 31,261 | 71,073 |
| FICA | 6,471 | 5,081 | 11,552 |
| Legal, accounting and other professional fees | 10,109 | 5,144 | 15,253 |
| Consulting | 129,600 | 24,000 | 153,600 |
| Risk management | 8,077 | 3,495 | 11,572 |
| Building rent | 25,755 | 11,144 | 36,899 |
| Depreciation and amortization | 12,949 | 5,602 | 18,551 |
| Utilities | 7,929 | 3,431 | 11,360 |
| Office expenses | 8,335 | 3,606 | 11,941 |
| Software fees and maintenance | 31,292 | 6,780 | 38,072 |
| Meetings, conferences and travel | 8,123 | 1,534 | 9,657 |
| Dues and subscriptions | 3,137 | 1,357 | 4,494 |
| Other | 499 | 216 | 715 |
| Total operating expenses | <u>383,078</u> | <u>174,099</u> | <u>557,177</u> |
| Grant expense | 7,034,920 | - | 7,034,920 |
| Taxes paid | 44,333 | - | 44,333 |
| Total expenses | <u>\$ 7,462,331</u> | <u>\$ 174,099</u> | <u>\$ 7,636,430</u> |

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

Walther Cancer Foundation, Inc.

Notes to Financial Statements June 30, 2020 and 2019 (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.

The Foundation invests in various investment securities. 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 changes could materially affect the amounts reported in the accompanying statements of financial position.

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, 2020 and 2019 (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, 2020 and 2019
(Income Tax Basis)

Contributions

Contributions are provided to the Foundation either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts - with or without donor restrictions. The value recorded for each contribution is recognized as follows:

| Nature of the Gift | Value Recognized |
|--|---|
| <i>Conditional Gifts, With or Without Restriction</i> | |
| Gifts that depend on the Foundation overcoming a donor imposed barrier to be entitled to the funds | Not recognized until the gift becomes unconditional, <i>i.e.</i> the donor imposed barrier is met |
| <i>Unconditional Gifts, With or Without Restriction</i> | |
| Received at date of gift - cash and other assets | Fair value |

When a donor 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. Absent explicit donor stipulations for the period of time that long-lived assets must be held, expirations of restrictions for gifts of land, buildings, equipment and other long-lived assets are reported when those assets are placed in service.

Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period the gift is received are recorded as revenue with donor restrictions and then released from restriction.

Grants

Grants are recorded when paid. The Foundation has approximately \$42,641,000 of grant commitments awarded that have not yet been paid at June 30, 2020.

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.

Walther Cancer Foundation, Inc.

Notes to Financial Statements June 30, 2020 and 2019 (Income Tax Basis)

Subsequent Events

As a result of the spread of the SARS-CoV-2 virus and the incidence of COVID-19, economic uncertainties have arisen which may negatively affect the financial position, results of operations and cash flows of the Foundation. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

Subsequent events have been evaluated through November 3, 2020, which is the date the financial statements were available to be issued.

Note 2: 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 56% and 63% of investments at June 30, 2020 and 2019, 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.

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.

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At June 30, 2020 and 2019, the fair market value of the Foundation's investments are comprised of:

| | <u>2020</u> | <u>2019</u> |
|------------------------------------|-----------------------|-----------------------|
| U.S. government obligations | \$ - | \$ 393,466 |
| U.S. government agency obligations | 8,669,865 | 8,473,993 |
| Corporate obligations | 2,212,466 | 2,019,481 |
| Municipal obligations | 1,533,652 | 1,050,852 |
| Equities | 17,573,646 | 14,216,452 |
| Exchange traded funds - Gold | 3,761,975 | 2,995,805 |
| Mutual funds | | |
| Equity | 24,706,020 | 22,805,347 |
| Fixed income | 3,281,267 | 852,399 |
| Commingled trusts - Equities | - | 8,282,662 |
| Limited partnerships | | |
| Equities | 16,809,297 | 14,482,029 |
| Private equity | 16,622,149 | 15,879,635 |
| Real assets | 12,097,453 | 10,839,796 |
| Hedge funds | | |
| Distressed | 5,909,995 | 11,490,406 |
| Long/short equity | 16,566,375 | 15,209,279 |
| Absolute return | 13,046,516 | 15,809,301 |
| | <u>13,046,516</u> | <u>15,809,301</u> |
| Total | <u>\$ 142,790,676</u> | <u>\$ 144,800,903</u> |

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, 2020, the Foundation had unfunded capital commitments totaling approximately \$12,100,000. 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.

Note 3: Property and Equipment

The Foundation's property and equipment at June 30, 2020 and 2019 is as follows:

| | <u>2020</u> | <u>2019</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 | (332,865) | (304,981) |
| | <u>\$ 130,882</u> | <u>\$ 158,766</u> |

Walther Cancer Foundation, Inc.
Notes to Financial Statements
June 30, 2020 and 2019
(Income Tax Basis)

Note 4: 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 \$36,234 and \$35,809 during 2020 and 2019, respectively.

Note 5: Qualifying Distributions

Qualifying distributions made during the years ended June 30, 2020 and 2019 include:

| | <u>2020</u> | <u>2019</u> |
|---------------------------------------|---------------------|---------------------|
| Grants paid | \$ 7,034,920 | \$ 6,991,254 |
| Operating and administrative expenses | <u>539,225</u> | <u>531,070</u> |
| Total qualifying distributions | <u>\$ 7,574,145</u> | <u>\$ 7,522,324</u> |

Note 6: 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, 2020 and 2019, comprise the following:

| | <u>2020</u> | <u>2019</u> |
|---|-----------------------|-----------------------|
| Cash and cash equivalents | \$ 1,877,011 | \$ 2,094,576 |
| Interest receivable on investments | 86,626 | 94,765 |
| Redeemable investments | <u>110,314,622</u> | <u>113,294,100</u> |
| Financial assets available to meet cash needs for general expenditures within one year | <u>\$ 112,278,259</u> | <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 years ended June 30, 2020 and 2019, the level of liquidity was within the policy requirements.